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AN ADIRONDACK VIEW

Inflation is a real economic disaster. It goes hand in hand with War—and keeps on going after the peace settlement. Inflation, itself, is tough on a lot of people—but the morning-after, which surely comes, is tougher and hits more people.

But just what is inflation? We speak off-the-cuff about high cost-of-living, over-extended credit, cheap money, labor shortages, banks buying governments, business upswing, bull markets, etc., etc. These look more like results than causes.

The president of this 3¾ member chapter appointed its own Economic Commission—they are in style these days. The report is in, here it is:

> *Inflation occurs when wages and salaries get blown up faster than earned by actual production.*

Well, think it over, perhaps you have a better definition. We don't know too much—and what we do know we are not certain about.

Leonard Houghton
"Adirondack Chapter
Saranac Lake Branch"

Book Reviews

Public Accounting Practice and Accounting Education

By Donald P. Perry, Dickinson Lecturer 1954-1955. Graduate School of Business Administration, HARVARD UNIVERSITY, Boston, Mass., 1955. Pages: xii + 65; $1.50.

In the Dickinson Lectures delivered at the Graduate School of Business Administration of Harvard University, Mr. Donald P. Perry discussed the training for the public accounting profession and the problems raised in connection with this training, both in the schools and in the profession. These two lectures have been printed in a volume which can be read with interest by anyone concerned with the profession and the education of its future members. Mr. Perry, the author of these lectures, brings to the subject some thirty-five years of experience in public practice, twenty-five years as a partner in a large national firm.

In the first lecture, Mr. Perry discusses the nature of present-day professional practice, its responsibilities and its requirements, with some general indications of the direction in which it may be expected to grow. These matters are discussed in the light of the training the young accountant should receive in order to assume these responsibilities most effectively. Mr. Perry points out that the public accounting profession is still in a dynamic period of development paralleling the vigorous advances taking place in our complex industrial system. These advances, as Mr. Perry states, have resulted in an evolution in the techniques of auditing. In the past fifty years the bulk of the work of the certified public accountant has developed from the routine checking of the accuracy of the bookkeeper's records, to an examination of the financial statements, calling for a high order of informed judgment based on standards recognized by the members of the profession, requiring a broad understanding of business organizations, business methods, and business relationships. No longer is the auditor considered as a watchdog or financial detective, charged with the responsibility of correcting the historical bookkeeping errors of a concern. Today his prime responsibility as an auditor is to pass upon the overall reasonableness of the representations made in the company's financial statements. However, the present certified public accountant's sphere of activity is far broader than that connoted by the word "auditing" for he is looked upon to perform a wide range of services for business concerns of all sizes, particularly in the field of tax practice and general consulting.

This tremendous increase in the growth of the profession—and the ever-widening range of its services—have required the accountant to refine his techniques of account-

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ing and auditing, and to develop an understanding of the work of other specialists and of the wider aspects of business generally. These factors have also required some sound thinking by accountants, as Mr. Perry says, of "how best to foster character building, imaginative ideas, discriminating straight thinking, and an understanding of his place in society".

In the second lecture, Mr. Perry discusses the present varied patterns of education for the profession and the developments in education which, in his opinion, are likely to be most useful to those entering the profession. While about seventy-five per cent of those now taking the CPA examinations are college graduates, the present educational requirements for the certificate, as specified by the majority of the states, do not include a college degree. Furthermore, many of the collegiate schools of business have students preparing not only for public accounting careers, but also for private accounting professions and for administrative or executive positions in business or industry. Mr. Perry raises the question as to "whether the programs of the collegiate schools and universities, organized as they are for students with other aims, provide the ideal pattern for educating candidates for public accounting". Pointing out that failures in some of the examinations have ranged up to seventy-five to eighty per cent, Mr. Perry comes to the conclusion that these unsatisfactory results are attributable either to shortcomings of preparation in the schools or to the absence of any satisfactory means of screening out incapable candidates. He argues that a "better-defined and directed pattern of educational preparation which could be integrated with the examination, together with earlier elimination of the unfitted" would go a long way to avoiding the waste of time and effort by many incapable candidates.

Mr. Perry attacks the tendency in some schools to offer too wide a diversity of technical accounting courses with the resulting sacrifice of the general cultural courses and the general background of business knowledge so essential to a public accountant. He suggests that the profession and the schools agree on a central core of accounting knowledge which should be expected of all members of the profession, and further suggests that "such a fundamental core should be of manageable proportions and still leave room for a broad educational curriculum outside accounting".

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The rapid growth of accounting study in recent years, he points out, has accentuated an acute shortage of fine teachers and that this fact, coupled with the failure of many of the schools to keep abreast of recent developments in the profession, has resulted in something less than an ideal arrangement with respect to formal education for the profession. Mr. Perry suggests that members of the profession with tutorial abilities might participate actively in the area of instruction so that the student might draw on their practical experience to great advantage. He further urges that the schools themselves cooperate in this program by drawing on the experiences of the practicing accountant.

Mr. Perry urges that there is a genuine need for a professional program designed primarily for the public accounting profession. He suggests that the educational content of such a program should reflect the broader aspects of professional practice. It is suggested that the candidate for the public accounting profession should spend considerable time in the study of the auditing standards, internal control procedures, accounting principles, tax accounting, reporting, and the professional responsibilities, including ethics, the handling of client relationships and the general position of the accountant in the business world. He points out also that the successful professional man must take part in a general educational pattern which has three ultimate objectives: (a) good citizenship, (b) understanding of business in its broadest aspects, and (c) technical proficiency and knowledge in accounting. In this connection, he suggests that at least one-half of the four-year undergraduate curriculum be devoted to the general area of good citizenship and that the other half of the undergraduate curriculum would be divided equally between education in the functioning of the major divisions of business and technical accounting education oriented to the social and economic climate in which business operates.

He recommends that this educational program should be pointed towards a professional career by providing a grounding in the principles of general, cost, and tax accounting, by emphasizing ability to report understandably in a way to elicit attention and action, and by dealing with the ethics and conduct of an accounting practice. He concludes by stating that a program envisioned is not encompassed by present day four-year college curricula and that the most fruitful possibilities for saving educational time would seem to be in concentrating academic work on principles, problems and methods of solution leaving the practical answers, detailed applications and factual materials to be learned later on the job. Mr. Perry feels that it is doubtful if all the desirable formal education could be completed in less than five years after high school.

In concluding his lecture, Mr. Perry points to the urgent need to raise and make more uniform throughout the country the required standards of preparation for the CPA certificate.

Thomas B. Hogan

Haskins & Sells
New York, N. Y.

Great Enterprise

By Herrymon Maurer. The Macmillan Company, New York, N. Y., 1955. Pages: x + 303; $5.00.

In the measurement of progress and financial condition of business enterprises, professional accountancy works principally with the corporate form of business organization. Understanding the present nature of the corporation, how it has developed in the past, and its emerging future characteristics, therefore, is necessary for clear analysis of corporate finances. In *Great Enterprise,* Herrymon Maurer traces the growth and behavior of the big corporation and provides a new, realistic picture of corporate activity of vital interest to progressive accountants.

Author Maurer writes in *Fortune's* lively style, supporting his presentation with a four-year study of 50 top corporations by *Fortune* researchers. He carefully delays attempting a working definition of the large corporation until the last ten percent of his book. As he says: "A final definition of the large corporation cannot be set down. The corporation will not sit long enough for a definitive portrait. It moves through time, and recently it has been moving fast. But it is possible to set down a working definition such as the following:

> "A large corporation is a rationally planned enterprise which organizes the intelligence, the labor, and the investments of large numbers of men—the totality of whose desires it attempts to meet—and which aims at its own continued existence. To attain this goal it is ready to postpone profits and to strive toward increasingly higher production at increasingly lower prices. It measures its efficiency by a profit test; it accepts such social controls as the economic vote, public opinion, and corrective competition."

Mr. Maurer's reason for delaying his definition of the corporation seems clear: De-

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spite an overall pattern, each corporation has its own way of doing things; its own character. This is warmly dramatized over and over again in thoughtfully-selected quotations from interviews with the top executives of the companies studied. While he humanizes the complex corporate organism by this means, the author does not fail to deal with fundamental concepts. Among the more tantalizing of these is his argument that American corporate activity cannot be explained in terms of classical economics. Mr. Maurer makes a strong case for "an emerging rationale . . of the large corporation:" "Economics . . still depends upon old theoretical assumptions about wealth, value, scarcity, self-interest, supply and demand, and diminishing returns—assumptions inadequate for a description of the large corporation. Classical economics does not provide a language for discussing a continuum of market transactions; neither does it lend itself to such facts as cooperative business effort."

Mr. Maurer also deals with many other aspects of corporate activity. He discusses the "corporate center" in relation to the broad social responsibilities of large companies. The makeup of the modern business manager, the work of directors, decentralization trends, and management by committee and group enterprise are covered. On this last subject, the author strikes a keynote of *Great Enterprise:*

> "The activities of the large corporation, comprising everything from the efficiency of current production and distribution to complex calculations about levels of production, prices, profits, and wages in a future that may be more than ten years off, are clearly too vast and intricate for one man to keep in his mind. Group management has therefore become characteristic of the large corporation; on every executive level decisions are the result of the interaction of many minds, even though they may be formalized by individual managers."

In his section on "The Corporation and Society," Mr. Maurer discusses briefly some points on social control of business reminiscent of J. M. Clark's classic on this subject. He gives some time to the question of "bigness," also, and closes with thoughts on tomorrow's corporations. While he says that "the large corporation is still too new to be understood fully and quickly, let alone explained," the author's analysis is, on the whole, very revealing.

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THE NEW YORK
CERTIFIED PUBLIC ACCOUNTANT

EMANUEL SAXE, *Managing Editor*

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The President's Page

To a new president — this page in this issue brings the atmosphere of the New Year season. It is natural to look back over the year that has passed, and it is a pleasing and encouraging view in retrospect. The growth in membership resulting from Harold Caffyn's energetic campaign has been outstanding. Our membership at April 30, 1956, was 8,222, with the thousandth application having come in.

The new staff organization under Harry Howe's direction has functioned smoothly and effectively. The difficult transition has been made without faltering and the improvement in office procedure and in member relations is clearly apparent. Practical public relations have been strengthened by cooperation with state officials and legislators.

There is a sense of a keenly dynamic and growing Society of intelligent and able men, cooperative but with independent thinking. Substantial progress is evident in the imaginative yet thorough work of many (although not all) of the committees. The *New York Certified Public Accountant* has been continued with high standards and with interesting and helpful material, and it soon will be clothed in a new and attractive format.

It is also natural to look forward to the year that lies before us and to indicate some of the areas in which special effort should be made.

Two-class, or regulatory legislation, will be given renewed study through the Council on Accountancy and our own Legislative Committee. This subject is also having fresh attention at the national level in states which now have regulatory legislation and in those which do not. The American Institute of Accountants had the subject before it at the Council Meeting in April and will have it again in September.

The membership campaign must be actively pursued with the goal of uniting in the Society all New York State CPAs. There are still many thousands of CPAs in this State who are not members of the Society. Everyone of these who values his certificate should be part of our Society. The subject of better and closer communication between the Society and its members and between the members is one which should be vigorously explored.

Relations with the Bar will take on new meaning in the light of the Treasury Department interpretation of Circular 230 and will need thoughtful study.

The changing face of business and accountancy with mechanization, automation, electronics and new ideas and relations in management must have close attention. Accountancy has always been closely related to industry and accountants cannot afford to drop behind in the awareness of change and the adaptation of their thinking and procedures to new business planning and activity.

The beginning of the new year is also traditionally a time when we think not only of events, but of people. One of the deepest impressions made on me in recent years is the high quality of the men in the accounting profession throughout the country, and that quality is no higher anywhere than in New York State. I have seen our own State Society members at work in committees, in general meetings, and in board meetings. They are keen-minded, independent thinkers, not robots but still warmly cooperative. When combined with a willingness to give generously of their time and thought, this should ensure the rapid and sound growth of our profession and of our Society. I have had an earnest of this in the quick and enthusiastic acceptance of responsibilities as Committee Chairmen and members.

So, with the solid foundation on which we start, with a live organization, with serious problems to consider and resolve, and with a group possessed of unsurpassed capabilities and qualities working together, we should have a very productive year.

ARTHUR B. FOYE
President

Methods of Operating Fleets

By THOMAS BURGESS, JR., C.P.A.

This paper discusses the business advantages and disadvantages of three commonly employed methods of operating a fleet of cars: Salesman-ownership, company-ownership, and rental arrangements.

Introduction

This is not intended to present an all-inclusive summary of the advantages and disadvantages of leasing or of purchasing transportation equipment. As a matter of fact, because of various conditions, what might be an advantage to one company could well be a detriment to another. Therefore, in so far as possible we shall try to avoid the drawing of conclusions. We shall, however, briefly discuss several types of fleet operations which have been or are being used, as well as some of the arguments in favor of and against each. The method or system that would serve a particular company best can be determined only after a thorough study of that company's needs.

THOMAS BURGESS, JR., C.P.A., is a member of our Society and of its Land Transport Accounting Committee. He is also a member of the American Institute of Accountants and the Institute of Internal Auditors.

Mr. Burgess, a graduate of Trinity College and of New York University Graduate School of Business Administration, is Auditor of The Mutual Life Insurance Co. of New York.

This paper was presented by Mr. Burgess at a technical meeting of the Society held on March 6, 1956, under the joint auspices of the Society's Committee on Land Transport Accounting and the Metropolitan Society of Motor Carrier Accountants.

The various methods of operating fleets fall logically into three major subdivisions: (1) salesman-ownership; (2) company-ownership; (3) rental arrangements. For the sake of simplicity, we shall discuss fleet *cars* rather than trucks. But as will be readily apparent, while there are certain basic differences, they have many common denominators.

One company summed up the situation very adequately as follows:

> "The necessity of having salesmen and service men go from place to place is playing an ever increasing role in American business today. As industry and business continue to expand and spread to outlying areas, the automobile has become as essential as the order blank or the service kit.
>
> "This need for automotive transportation has been handled in several different ways. Some companies require their men to get around the best way they can, while others reimburse their men for the business use of their personal cars on a so-much-a-mile basis. A number of companies buy fleets of cars for their men, while still others lease them."

Salesman-Ownership

What Is It? The requirement by the employer that the salesman (or employee) own or provide a car for necessary business use is still the plan most prevalent among companies today. While this type of operation has been steadily declining in recent years, many variations of it have been developed attempting to overcome some of the problems and inequities it creates.

Probably the best known and most widely used plan is the flat per-mile allowance, reimbursing the salesman on a so-much-a-mile basis for the business use of his car. There is a wide variation in the amount of these allowances

between companies (e.g., from 5¢ to 12¢ a mile), although the average is probably in the neighborhood of 7.5¢, or possibly slightly higher. There are even variations of this, depending upon the total mileage traveled per month or year. For example:

> 8¢ a mile up to 1,000 miles a *month* and 6¢ thereafter.
>
> 7¢ a mile up to 20,000 miles a *year* and 5¢ thereafter.

Another interesting variation is one where the company pays its salesman so much a month for the use of his car, plus a small per-mile allowance. This attempts to eliminate inequities in mileage traveled and reimburse for fixed expenses which have little or no relation to the actual usage.

Other companies have still other methods of reimbursement with territorial mileage allowances with varying rates to compensate for the inequities caused by rural versus urban routes, mountainous versus relatively level territory, normally high versus low-cost areas. Some companies pay their men so much for a certain period and let it go at that. This avoids the necessity of detailed mileage and other car expense reports. In addition to providing an allowance for the use of the salesmen's cars, some companies have even developed fairly elaborate methods to help their men finance their own purchases of new cars.

Some Advantages of Salesman-Ownership — From the company's standpoint, probably the most significant advantage of salesman-ownership is the fact that the companies can predict with a high degree of accuracy exactly what their automobile expense will be. As one company treasurer summed it up,

> "The only thing that influences our auto expense is the addition or subtraction to our field sales force and we can pretty well predict that."

Among the other obvious advantages which might be cited are the greatly simplified expense accounting, the elimination of the administrative costs and headaches incident to the operation of a company-owned fleet, and the avoidance of tying up working capital in such fixed assets.

Some companies feel that auto expense allowances permit the salesman pride of ownership, afford him freedom of selection of make and type of car, and allow him to acquire a car that he otherwise might not be able to afford.

Disadvantages — The ideal of any salesman-ownership plan would be compensation for the exact amount of expenses incurred for the company's benefit. No plan of mileage allowances, fixed periodic payments, or a combination of these, has yet been able to accomplish this. They will overpay at high mileage and underpay at low, or vice versa.

Among the more usual disadvantages might be included the following:

1. No allowance method eliminates inequities—it merely changes the degree of inequity.
2. Most salesmen feel that the allowance plan applicable to them is inadequate and would prefer not to have to provide their own cars.
3. As a rule, the allowance does not cover the salesman's out-of-pocket expense.
4. To the average salesman, the investment in a business car creates a real burden.
5. In the recruiting of new salesmen, many desirable young men have to be passed up because they do not have the wherewithal to invest in a new car.
6. Salesman-ownership is the most expensive form of sales fleet operation and mileage allowances are constantly increasing.

The principal difficulty with the various prefabricated allowance schemes is

that they are little more than intelligent guesses as to what the average actual expenses will be and they are based on the erroneous assumption that all salesmen will drive the same kind of car, usually a low-priced one.

Company-Ownership

Corporate executives are constantly faced with the question of which is more economical and practical: company-ownership or leasing. This, of course, goes far beyond fleets of cars and trucks and may include fixed and movable machinery and even real estate. If the company's cash position is such that cash or working capital does not present a problem, the decision may be a difficult one. Even corporations seem to take a certain pride in ownership. But they are beginning to look beyond this narrow viewpoint and ask themselves whether the profits are created because of the *ownership* of the asset or the *use* of the equipment. When viewed objectively, there can be only one answer.

Self-Managed — As with salesman-ownership, there are variations to company-ownership. The most obvious is self-management, with all its attendant advantages as well as problems. Some of the advantages mentioned quite frequently by company-fleet managers are:

1. Greater economy of operation.
2. Better maintenance.
3. Salesmen are better satisfied.
4. Positive control of the fleet.
5. Less lost time on repairs and maintenance.
6. Salesmen do not have a large investment.
7. Flexibility in transferring salesmen.
8. Salesmen have late model cars.

The most universal advantage seems to be the prevalance of greater economy in a well-managed company-owned fleet operation.

Naturally, there are disadvantages as well. Some are inherent, all must be weighed against the offsetting benefits. Some of those which have been mentioned are:

1. Large capital investment.
2. Clerical and detail routine of car management.
3. Personal use of company cars.
4. Abuse of company cars.
5. More extravagant use of company cars.
6. Additional detailed reports from salesmen.
7. Liability resulting from misuse by operators.

Of these, the most universal objection seems to be the large capital investment required.

Purchased Management Service — Considerable use is also being made of a fleet management service provided by a specialized outside firm. A company which provides such a fleet management service is Peterson, Howell & Heather, Inc. of Baltimore, Maryland. A published summary of its service reads in part as follows:

> "The purchase and sale of passenger cars from coast to coast is a highly specialized function since the automotive market is extremely sensitive to constantly changing conditions. As the largest purchaser of passenger automobiles in the United States (except for the U. S. Government), PHH performs very valuable services in arranging fleet purchases and disposing of used passenger cars all across the country. Cars are purchased at realistic discounts which allow dealers a fair margin of profit. In return, dealers selected by PHH pay reasonable and fair prices for the used cars and provide certain services which are indispensable to the Lessee.
>
> "The management service of PHH makes available impartial and experienced judgment in handling problems related to fleet operation. Advice and assistance as required are furnished to Lessees as an integral part of the leasing program.
>
> "PHH maintains a regular schedule of personal visits to each Lessee to discuss immediate problems and long-range planning.

"Through the cooperation of its Lessees PHH maintains and analyzes expense records on . . . cars a year. These records are developed from expense records submitted by the operators of leased cars.

"A monthly fleet report is prepared for each Lessee using this service, showing by current month and year to date the fleet operating costs in dollars and in cents per mile for each item of expense. Further, a report on the monthly performance of each unit is furnished to the Lessee indicating those expenses which appear to be out of line. Finally, a comprehensive cost report is submitted on each car when it is sold.

"These records are also used to determine the proper time to replace fleet cars. Specific recommendations are made periodically to Lessees as to which cars should be replaced and when, but the final decision as to the replacement of any car is left to the Lessee."

Note: The above refers to the term "Lessee", but it applies also to clients who own their own fleets and delegate most management and record keeping functions to Peterson, Howell & Heather.

The advantages and disadvantages of such a fleet management service of a company-owned fleet are very similar to those enumerated under the company self-managed plan. In addition, many of the administrative costs and headaches incident to the operation of a fleet are eliminated or transferred to the servicing organization. Care, of course, must be exercised in the purchase of such services, but the right service company, as a specialist in its particular field, may well provide the following at a reasonable price:

1. A workable and efficient system of buying fleet cars throughout the country.
2. Sound fleet operation and replacement policies.
3. A method of selling the used car fleet, to keep depreciation expense to a reasonable minimum.
4. Accurate records of fleet operating costs plus intelligent analyses of them.

Rental Arrangements

As in the case with other types of fleet financing and operations, there are many variations to the third method of operating fleets, namely rental arrangements. Mr. Frank K. Griesinger, Assistant Treasurer of the Lincoln Electric Company, has stated that

"Leasing can be expected to be used more and more as an industrial financing and marketing tool, with benefit to industrial technology and society as a whole."

We shall comment briefly on three rental methods.

Flat Rate Type of Rental—This is a true type of lease where the ownership is and remains in the lessor, who charges a fee for the use of his equipment. This may be a flat rate per month (adjusted for the mileage operated) with maintenance and other expenses, except gas and oil, provided, or it may provide gas and oil and even a driver. Or the lease may provide the equipment only with maintenance and other expenses borne by the lessee. In either case, the rental will undoubtedly be sufficient to reimburse the owner for normal depreciation.

Purchase Option Leasing — Leases with options to purchase may not be true leases at all and should be entered into only after carefully weighing all the advantages and possible risks involved. The Internal Revenue Department has been quite consistent in classifying payments made under such arrangements as capital expenditures. Such leases, whether the allowable purchase options are exercised or not, may be considered conditional sales contracts for income tax purposes.

PHH—Mutual Of New York Plan —A rather interesting plan, a true leasing plan, was developed by Peterson, Howell & Heather of Baltimore in 1951. It is financed by The Mutual Life Insurance Company of New York. Its success is largely based on the premise that there are four parties to the arrangement (the lessee com-

pany, the automobile dealer, Peterson, Howell & Heather, and Mutual Of New York) and that each must derive a reasonable benefit. The following is quoted from a published summary of this service:

"Under the Plan corporations of high credit standing may lease 100 or more vehicles. Trucks, tractors, truck trailers and other separable units may be considered as individual vehicles for the purpose of determining the number of units in a given fleet." (Peterson, Howell and Heather also have another plan, separately financed, under which they lease and manage fleets of less than 100 vehicles.)

"Any available make or model vehicle and accessories selected by the Lessee can be leased under the plan. A vehicle may be leased for as long a period as the Lessee desires with a minimum of 12 months.

"Leased vehicles may be secured through PHH's nation-wide buying service or by the Lessee, depending upon which is more advantageous to the Lessee. PHH is able to purchase all makes of passenger cars as well as standard model light trucks at attractive fleet discounts. Since all rentals are based on a percentage of the original cost of the vehicle, this discount arrangement has a decided advantage to the Lessee.

"Lessee purchased vehicles are ordered direct by the Lessee through its own source of supply and are later sold by the Lessee when the Lessee wishes to dispose of them. PHH arranges to pay the invoice for all such vehicles and to place them under lease.

"All monthly rentals are based on a percentage of the net original cost of each vehicle. Of the total rent, 2.0% is a reserve for depreciation. The remainder covers the PHH management fee and the interest to Mutual Of New York on the money invested in the leased equipment.

"When the vehicle is sold, the relation of the reserve dollars to the actual depreciation dollars is computed. If the amount in reserve exceeds the amount in depreciation (original cost less resale proceeds) this excess is refunded to the Lessee.

"Should the actual depreciation on a vehicle sold be greater than the reserve, the deficiency is paid by the Lessee as additional rent. Whether or not a deficiency or refund will result from the sale of a leased vehicle depends on a number of factors, including the market for the used vehicle, the length of time the vehicle was leased, its condition at time of sale, etc.

"Under the leasing program the Lessee pays all operating expenses just as if the vehicles were company owned. This is a decided advantage since the Lessee can exercise a direct control over the *actual cost* of such expenses.

"The only requirement (with respect to insurance) is that the Lessee provide PHH with evidence that the leased vehicles are adequately insured against public liability and property damage . . ."

"Separate lease arrangements are provided for aircraft and materials handling equipment, but the rates and provisions are basically the same as for automobiles and trucks."

Changes in Methods of Ownership—A recent Dartnell survey of 124 companies revealed that 19 had changed their method of ownership since 1950:

- 8 went from salesman-ownership to leasing.
- 5 went from company-ownership to leasing.
- 3 went from salesman-ownership to company-ownership.
- 3 went from company-ownership to salesman-ownership.

13 of these 19 have gone to a leasing arrangement. While there are some exceptions, this seems to be an indication of the general trend in recent years.

Typical comments from the companies leasing these cars were:

"We feel the cost of operating leased cars is just about the same as reimbursing our salesmen for the use of personal autos. Before changing over to leased cars, we paid $40 per month plus an additional 4 cents per mile."

"Five of our salesmen with low mileage (15,000 miles) thought they were losing money on a mileage basis."

"Much easier to allocate costs and to budget. Less expensive. We always have new cars."

"Administrative convenience. Cheaper than salesman-owned cars and no capital investment."

"Went from salesman-owned to fleet-leased program to provide salesmen with a new car every year and eliminate objections from men. Experienced a slightly increased cost of operation over salesman-owned cars."

"Of our fleet of 220 cars, the company receives the same service whether leasing

or owning the cars. The cash investment is the only real difference."

"We first began supplying company-owned cars for our salesmen in the year 1951. The primary reason for this was government credit restrictions making it difficult or impossible for many beginning salesmen to own serviceable autos."

The last comment, that of requiring salesmen to purchase or supply cars as a condition of employment has troubled many sales managers. We talk about the "Little Three" or the "Big Three," but I don't think there is any such thing as a low-priced car today. Even if it is possible to acquire a serviceable second-hand car at a bargain price, the chances are that the amount of servicing required and the cost of it, together with the attendant loss of productive time, will be far greater than with the new car.

From these comments, it is obvious that differences of opinion as to the relative merits of one system or method as opposed to another exist. Peterson, Howell & Heather state that

"There are too many variable factors involved to categorically say that salesman-ownership is more economical or more costly than leasing or company-ownership. The only answer we can offer is one based on our own experience . . . Of 220 PHH clients, more than half were formerly using salesman-ownership. In switching to the PHH Fleet Plan, none of them have failed to save substantial amounts in dollars."

Probably, the most significant—certainly the most obvious—advantage to leasing is that it releases working capital which otherwise would be frozen in fixed assets. If this released working capital is intelligently put to work, it can earn additional profits. Also, leasing is a method of raising capital or, conversely, of avoiding the borrowing of money to purchase equipment.

Conclusion

The leasing of equipment is a concept of finance which must be thoroughly understood and appreciated by corporate management. Each company must understand the economic principles of leasing vs. company-ownership and salesman-ownership and the advantages and disadvantages of each as they apply to its particular situations. And in their studies in the years ahead, I believe more weight will be given to the human relations side, the recruiting, training, developing and retaining of sales people, our human resources, and a little less to the more easily measurable cash-flow.

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Leased vs. Purchased Transportation Equipment—Tax Considerations

By Milton D. Safane, C.P.A.

This paper discusses the possible income tax advantages that might accrue from the leasing, rather than the purchasing, of transportation equipment. The author concludes that, under current law and regulations, at best only a deferral of the tax bill may be accomplished, with certain possible concomitant advantages.

The prime income tax consideration to taxpayers, when deciding whether to lease rather than purchase equipment, is simply a question of "am I going to save income tax?" Let me say at the outset that income tax will not be saved, assuming a continuity of tax rates at their present levels, but that some portion of the tax bill may be deferred to a later year. If this deferral of income tax so increases working capital that the additional cash resources find outlets to earn additional profits, then leasing has an important function in today's economy.

How does leasing result in a deferral of income tax? Rental payments are deductible from income as paid or accrued, whereas the purchase price of equipment is a capital expenditure which must be recovered over the useful life of the equipment. Even though the total deduction may be the same under either method, in the long run, the rental arrangement generally allows a faster write-off than the depreciation route.

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This paper was presented by Mr. Safane at a technical meeting of the Society held on March 6, 1956, under the joint auspices of the Society's Committee on Land Transport Accounting and the Metropolitan Society of Motor Carrier Accountants.

But how much faster? Under the provisions of the 1939 Internal Revenue Code, which was in effect not too long ago, I would say that there was a fairly substantial difference in deductions under a leasing program as compared with purchasing equipment. Under the 1954 Code, prior to the issuance of the originally proposed regulation on depreciation, this difference was narrowed considerably, almost to a point of eliminating the entire income tax advantage of leasing. At this date, however, because of the second proposed depreciation regulation under the 1954 Code, which is at present awaiting Congressional hearings, I am obliged to say that at times there may be an advantage to leasing and there are times when leasing will not be so favorable.

Comparison under the 1939 Code

If this sounds like double-talk, let's examine portions of the two Codes and regulations and try to illustrate them with concrete examples. Under the 1939 Code the usual way for a taxpayer to depreciate his equipment was on a straight-line basis.[1] Thus the purchase of a truck costing $8,200, with a $200 salvage value and an estimated useful life of 8 years would result in an annual depreciation deduction of $1,000. If the same truck could have been leased for 8 years at

[1] Other methods are units-of-production; declining-balance, up to 150% of normal straight-line rate; composite rates; and rapid depreciation of emergency facilities.

a total cost of $8,000, but at a declining annual amount, we might have a comparison of rent and depreciation as shown below:

Table I

Year	Straight-Line Depreciation	Rent
1	$1,000	$2,000
2	1,000	1,500
3	1,000	1,500
4	1,000	1,000
5	1,000	1,000
6	1,000	500
7	1,000	250
8	1,000	250
Totals	$8,000	$8,000

While the total expense under either method is still $8,000, the rental deduction is $5,000 during the first three years as compared with $3,000 of depreciation during the same period, resulting in a deferral of income tax on the difference of $2,000.

Comparison under the 1954 Code

Under the 1954 Internal Revenue Code and the originally proposed regulations,[2] the taxpayer was given several alternative methods of depreciation which reduced the tax advantage of leasing. Table II, below, compares the depreciation deduction under two common accelerated methods with the rental expense and straight-line depreciation as illustrated in Table I.

Table II

Year	Straight-Line Depreciation	Rent	Sum-of-the-Years'-Digits[3]	Double-Declining-Balance[4]
1	$1,000	$2,000	$1,778	$2,000
2	1,000	1,500	1,556	1,500
3	1,000	1,500	1,333	1,125
4	1,000	1,000	1,111	844
5	1,000	1,000	889	633
6	1,000	500	667	633
7	1,000	250	444	633
8	1,000	250	222	632
Totals	$8,000	$8,000	$8,000	$8,000

Whereas Table I showed a difference of $2,000 between rent and depreciation during the first three years, the two accelerated methods of depreciation cut the difference to less than $400.

The double-declining-balance and the sum-of-the-years'-digits methods apply only to "new" equipment which has a life expectancy of at least 3 years. If your equipment is not eligible for this accelerated depreciation and you must use straight-line depreciation, then leasing will, of course, result in a tax deferral, but if you can use one of the accelerated methods of depreciation the tax advantage of leasing equipment is minimized.

In the second proposed regulation[5] on depreciation under the 1954 Code, the Treasury Department seems to have changed its previously adopted policy as to what constitutes the life of an asset. This proposed regulation now states that "life" is to be the period over which the asset may

[2] Section 167 of 1954 IRC; Federal Register Sept. 28, 1954 (19 F.R. 6229).
[3] Adjustment required for salvage value.
[4] Change to straight-line after 4th year.
[5] Federal Register, Docket 55-9155.

reasonably be expected to be *useful to the taxpayer* in his trade or business. This is to be determined by reference to the taxpayer's experience. This could bar the accelerated methods of depreciation to taxpayers who regularly replace equipment in less than 3 years. For example, if trucks having an 8-year life are regularly replaced after 2½ years, no accelerated depreciation will be permitted. Even then, the taxpayer cannot recover his full cost through straight-line depreciation over say 2½ years, because the proposed regulation has a new concept of "realistic salvage value".[6] Under this concept, the realistic salvage value of the truck after 2½ years would be approximately equal to the amount the taxpayer could get for the truck at that time. Therefore, when determining the proper amount of depreciation, the depreciable base will be much less than the $8,000 used in Tables I and II, and the resulting depreciation will vary as well. For example, assume a truck cost $8,200 and the taxpayer's policy is to replace trucks after 2½ years. Assume also that at the end of 2½ years, this truck will be worth about $4,000. The depreciation of this truck on a straight-line basis would be calculated as follows:

Cost	$8,200
Salvage	4,000
Depreciable over 2½ years	$4,200
Annual depreciation	$1,680

As the salvage value increases in relation to cost, depreciation decreases, so that it is possible that under conditions of a tight market on second-hand equipment, the amount of depreciation in this illustration might be reduced considerably.

For these affected taxpayers, leasing again may become as important as under the 1939 Code. Even for those taxpayers who may continue to use accelerated depreciation under the new regulation, the amount of allowable depreciation will be affected by the new concept of "realistic salvage value".

Previously there were many taxpayers who bought equipment and replaced their fleets frequently. They found this more desirable than leasing because they could take large depreciation deductions (deductible from ordinary income), and often sell the equipment in excess of book value, reporting the excess as capital gain. This too appears to be closed up by the "realistic salvage value" concept in the new regulations.

From the foregoing it can be readily seen that the question of whether leasing will defer income taxes depends upon the circumstances in each case. The taxpayer must determine the difference between the depreciation allowances he can deduct and the rental payments he must pay. If the depreciation allowances in the early years are reasonably close to, or even exceed the rental payments, then there is no tax advantage in leasing.

Lease or Sale?—Treasury Department Criteria

If after consideration of these tax comparisons a lease is still desired, it is important for the agreement to be not only in the form of a lease but it must in fact be a lease. The Treasury Department has laid down certain rules for determining whether the agreement to rent is actually a lease or a contract of sale.[7] The rules state in part that in the absence of compelling persuasive factors to the contrary, if one or more of the following conditions are met, then for tax purposes the "lease" will be treated as a purchase and sale, and depreciation allowances rather than rental payments will be allowable deductions:

[6] Sec. 167(a)-1(c) of footnote 4.
[7] Revenue Ruling 55-540, IRB 1955-35,9.

a) Portions of the periodic payments are made specifically applicable to an equity to be acquired by the lessee. (*Truman Bowen* v. *Commissioner,* 12 TC 446).

b) The lessee will acquire title upon the payment of a stated amount of "rentals" which under the contract he was required to make. Again the *Truman Bowen* case and others are cited.

c) The total amount which the lessee is required to pay for a relatively short period of use constitutes an inordinately large proportion of the total sum required to be paid to secure the transfer of the title.

d) The agreed "rental" payments materially exceed the current fair rental value. This may indicate that the payments include an element other than compensation for use of the property.

e) The property may be acquired under a purchase option at a price which is nominal in relation to the value of the property at the time when the option may be exercised, as determined at the time of entering into the original agreement, or which is a relatively small amount when compared with the total payments which are required to be made. In this regard *Burroughs Adding Machine Co.* v. *Bogdon,* 9 Fed. (2d) 54, and *Holeproof Hosiery Co.* v. *Commissioner,* 11 BTA 547, are cited.

f) Some portion of the periodic payments is specifically designated as interest or is otherwise readily recognizable as the equivalent of interest. In *Judson Mills* v. *Commissioner,* 11 TC 25, the taxpayer acquired new machinery under agreements called leases whereby it was required to make fixed monthly payments called rentals to the machinery manufacturers for about 5 years and could then acquire title to the machinery by payment of a relatively small additional amount. The totals payable in monthly installments were computed to include 5 or 6 percent interest on the "principal" and interest tables were attached to the manufacturers' letters explanatory of the terms of the agreements. It was held in part, that the monthly payments were not deductible as rentals because the taxpayer thereby acquired an equity interest in the machinery.

If the six cited yardsticks are held to show an intent to sell rather than to rent, what must a taxpayer do to assure the deductibility of a rent payment? Agreements are generally indicative of an intent to rent equipment if the payments are at an hourly, daily or weekly rate or are based upon production, use, mileage, or a similar measure and are not directly related to the normal purchase price, provided, if there is an option to purchase, that the price at which the equipment may be acquired reasonably approximates the anticipated fair market value on the option date.

Two Applications of the Foregoing Rules

The general rules I mentioned were applied by the Treasury Department in the following two situations, both of which were held to be sales rather than leases:

No. 1: A lease agreement provides for renting equipment for a total of \$11,600 over a 36-month period. The lease may be renewed for ten years in one-year renewals for \$100 a year. There is no provision for transferring title. The Department said that the equipment had a life of 10-15 years. The agreement permits the use of the equipment for 13 years (3 years plus 10 one-year renewals). Thus the agreement allows for use over useful life. Also, of the total payments due over 13 years (\$12,600), over 90% of the amount is due in the first quarter of the period.[8]

[8] Revenue Ruling 55-541, IRB 1955-35, 6.

No. 2: Equipment is rented for 15 years for $15,000. Payments of $6,000 are made in the first 5 years, $5,200 in the next 5 years, and $3,800 in the final 5-year period. In addition 3½% per annum must be paid on the unpaid balance. At the end of 15 years, title will pass on payment of the then depreciated value of the equipment. The lease agreement is transferred by the lessor to an insurance company for $15,000. In this situation the Department held that the equipment could have been purchased under a deferred payment contract for $15,200 plus interest of $4,000 or a total of $19,200. The lease arrangement called for total payments of $22,600 (rent of $15,000 plus interest of $3,600 plus depreciated value of $4,000). The rental payments amounted to 82% for a period of use of only 75% of the useful life of the equipment. The total rentals were substantially higher than the fair rental value. In addition, interest was due on "rental" balances not yet due. The contract clearly contemplated disposition of the lease by the manufacturer of the equipment to the insurance company. Furthermore, it seemed unreasonable to assume that the insurance company intended to go into the business of owning and leasing equipment of this nature. Conclusion: it therefore seems wholly proper to infer that the intention of the parties to the agreement was that the "lessee" pay the required amount at the end of the "lease" period and keep the equipment.[9]

[9] Revenue Ruling 55-542, IRB 1955-35,14.

Summary

I have already mentioned that in determining whether income tax could be deferred through leasing, each case should be based upon the particular set of facts involved and depreciation expenses should be compared with rental expense.

If you choose the rental route, you should be certain that your rental expenses will survive Treasury scrutiny by following the above-mentioned rules in making your rental agreements.

I cannot overemphasize that in your consideration of this rental problem it is imperative to give due weight to business and cost considerations, as well as to possible tax advantages.

Leased vs. Purchased Transportation Equipment—Cost Considerations

By Robert G. Conroy, C.P.A.

This is a case study comparing the cost of leasing with the cost of owning, with respect to an assumed set of facts.

Our Land Transport Accounting Committee had comparatively little trouble deciding on a topic for this technical session, as the decision to discuss "Leasing vs. Purchasing" was made last fall at our first meeting. It took, however, several additional sessions before we were able to determine what phases of the topic would be covered. We had accumulated quite a bit of data and had decided that two talks would cover the more pertinent aspects of the subject. The first, which you have already heard by Mr. Burgess, highlighting certain of the many types of fleet plans and leases available to the motor carrier industry; and the second, by Mr. Safane, covering the tax considerations. At that point we became conscious of the fact that most of the data readily available was written by people connected with equipment-leasing companies and, accordingly, was slanted in favor of the various lease plans. An example of this was noted in one article where the author itemized ten advantages of leasing against only two disadvantages. The advantages listed were:

1. The lease permits use of equipment when working capital is short.
2. The lease frees working capital for other uses which may be more important, or more profitable.
3. Return on freed capital often exceeds leasing interest charges.
4. Leasing permits fast tax write-off.
5. Leasing offers a hedge against inflation.
6. Leasing permits re-investment of money from fast tax write-off in business.
7. Leasing permits tax write-off in big profit years.
8. The lease provides an operating budget control.
9. Leasing permits 100% financing.
10. Leased property appears only as a footnote on the balance sheet.

There were apparently only two disadvantages to leasing:

1. A service charge is made for leasing.
2. Equipment does not become the property of the user when the lease is terminated, although the user can often rent it at a much reduced rate.

With such a preponderance of advantages some operating people may conclude that leasing would solve all their problems. However, since you

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This paper was presented by Mr. Conroy at a technical meeting of the Society held on March 6, 1956, under the joint auspices of the Society's Committee on Land Transport Accounting and the Metropolitan Society of Motor Carrier Accountants.

gentlemen are accountants, it is doubtful that you would make such a decision without a more detailed investigation. As each of you may be called upon to evaluate a lease at some time in the future, we felt that a case study, developing the cost of leasing versus the cost of owning, would be of value.

Factors Involved

As Mr. Burgess has indicated, there is a variety of leases available to the motor carrier. You can lease autos, local equipment, dock equipment, and line equipment. Understandably, the terms will vary, not only according to the type of equipment, the number of pieces, and the use you will give it, but also from one lease company to another. Such being the case, the first step is to determine:

1. The number of units;
2. The type of equipment;
3. The required service; and
4. An estimate of the use the equipment will get, such as miles to be run, area, etc.

With this basic information in hand, you are ready to contact the various leasing companies, who are naturally ready and willing to help you resolve your problem. The terms of the various proposals must be evaluated and those which would be considered purchases under Chapter 14 of the Restatement (old Bulletin 38) and the Internal Revenue Code should be eliminated. With respect to each proposal, the following should be determined:

1. Amount of monthly or annual rent.
2. Minimum period of rental.
3. Frequency of replacement of used equipment with new equipment.
4. Insurance responsibility.
5. Responsibility for repairs and maintenance.
6. Disposition of gain or loss on disposal of rented unit.
7. Option to purchase in the event of a national emergency.

Development of the Cost Comparison

After determining the lease plan most suited to your requirements, you are ready to develop the comparison. The contract known as the "lease and service agreement" is generally a rather detailed document, but the essential terms usually are summarized on one page, headed "Details of Lease Proposal," an example of which you find in Schedule 1. Using the terms set forth therein and the carriers' own operating costs experience, the following cost comparison could be developed. Understandably, the cost figures would vary, not only from company to company, but also with respect to the various terminals within an individual company. Since the lease contracts generally carry a rate per week, the first step is to develop a comparison between the lease cost and the cost incurred if the company owned the vehicle. While it is possible to rent over-the-road equipment—tractors and trailers—I understand that the rental of such equipment has not been as popular as the rental of local equipment. Accordingly, in our case study the piece of equipment is a truck used in local service, having a delivered cost of $4,000 and an estimated life of five years. It is further presumed that in the past similar local units were driven an average of 7,800 miles per year, or 150 miles per week. On Schedule 1 we have the details of the lease proposal. You will note that Austin's Car Rental System will provide:

1. Complete maintenance and supervision service;
2. Painting and sign work;
3. Insurance;
4. Garaging and washing;
5. Guaranteed service; and
6. Additional trucks.

The cost comparison on Schedule 2 was developed by taking these provisions and developing the weekly cost of each. The method of computing the weekly costs and certain factors to be considered will now be discussed.

Depreciation: Although it is not specifically set forth in the lease proposal, the first element of cost to be considered with respect to company-owned equipment is that of depreciation. To give due consideration to the fact that company ownership usually involves financing charges, interest on the average book value is added to the delivered cost of the unit to arrive at a total cost of $4,400, which, when spread over the five-year life of the unit, amounts to $16.92 per week.

Maintenance and Supervision: The next cost to develop is that of maintenance. As in one place or another the lease proposal provides;

1. Complete maintenance repairs;
2. Road service for wrecks and tire service;
3. Daily check-up and preventive maintenance inspection;
4. Servicing and conditioning of vehicles so that they are "ready to go" at all times; and
5. Guaranteed service.

The weekly maintenance cost covering similar service must be determined. While most carriers can quote their maintenance cost per mile, this figure should not be used as it primarily reflects the maintenance experience of the over-the-road units. The Interstate Commerce Commission requires that maintenance costs be segregated between line equipment and local equipment, so most carriers can develop accurate local maintenance costs. In fact, it is not uncommon for maintenance records to be maintained on a unit basis, which show the terminal, the miles driven, maintenance costs incurred, and an average cost per mile. With such data available, the computation of a maintenance cost per mile at a given terminal would not be difficult. To be objective, it must be noted that the cost per mile so developed would not reflect:

1. Tow truck cost and expenses, if one is maintained at terminal.
2. Parts pick-up truck cost and expense, if one is maintained at terminal.
3. Depreciation of spare local unit maintained to assure full service in case of break-down or normal servicing of equipment, since guaranteed service in the event of a wreck or unavoidable break-down is provided under the lease proposal.

In discussing these points with maintenance personnel, I was informed that for the most part they can be ignored, as most carriers now follow strict policies of preventive maintenance with regard to local equipment. The old practice of using worn out inter-city equipment had proven to be an expensive economy. The carriers have further discovered that many shippers judge them by the equipment picking up the freight and have concluded that a well-maintained local fleet is good advertising. As a result, break-downs are a rarity.

In our example, we presumed that the study of maintenance costs at the particular terminal developed a cost per mile of 5½ cents, which should be about average as local maintenance costs usually run between 4 and 7 cents a mile.

Since "Investigation of Road Accidents and Claims" and "Safety Instructions and Supervision" would normally be carried out by the carrier, even if the equipment was leased, I did not develop a weekly cost for these items.

Washing and polishing of vehicles would vary somewhat from terminal to terminal as it is a common practice to work out reduced rates with local garages if all service work is done by the one garage. It is also possible that the terminal under consideration might have company-owned washing equipment, used primarily for the line units, but also available for washing local equipment. A brief review of the situation prevailing at the terminal would

provide a good washing and polishing estimate. For the purposes of our example, a figure of $2.00 has been used.

As far as oil, grease, and tires are concerned, I believe any of us with a car could come up with a reasonable estimate for oil and grease. However, if we had any doubts as to the accuracy of the estimate, the maintenance department could provide accurate figures with respect to the number of grease jobs and oil consumed — including oil changes — during the year. From that could be developed an accurate cost per week. With respect to tires, there is some disagreement among maintenance men as to whether you can use the company tire cost per mile, or whether you should develop a separate local equipment tire cost per mile. It is generally conceded that a local tire takes more abuse from nails, glass, curbs, holes in the pavement, stop and go driving, etc., than a line tire. Those supporting the company tire cost per mile counter with the fact that these abuses are balanced by the beating the line tires take driving at high speeds on the hot roads in the summer, with a resultant increase in blow-outs and other tire difficulties. In either event, you can start with the company tire cost per mile and adjust it according to your individual beliefs.

The lease proposed further states that "Vehicle license tags and payment of all automobile, gas and oil taxes now in force" will be provided. As it is the carrier's intention to provide the gasoline and since the automobile and oil taxes are generally negligible, we have to concern ourselves with the cost per week of the vehicle license tags. While the cost of the tags will vary from state to state, as well as by the size of the equipment, the cost at an individual terminal for a specific unit is determinable. Tags for local equipment generally run about $100 per year and accordingly a weekly cost of $2.00 has been used.

Painting and Sign Work: With respect to painting and lettering, the maintenance department can, again, provide accurate figures so that it is a simple matter to develop a cost per week.

Insurance: As is indicated in the lease proposal, the carrier is to be responsible for Public Liability and Property Damage insurance, with the result that the weekly cost of such insurance does not enter into our study. The cost of fire, theft and collision insurance in the town where the terminal is located can be obtained from insurance manuals. Due consideration should be given to the reduced premiums available to fleet operators. Here again it is comparatively easy to compute the weekly cost.

Garaging and Washing: Garaging of local equipment is generally done at the terminal itself and this feature of the lease proposed has not been given a cost consideration. I understand, however, in certain cities, such as New York, where space is at a premium, that this is one of the principal advantages of leasing local equipment. Understandably, if a New York study were to be made this definitely would have to be evaluated.

Guaranteed Service: Guaranteed Service was covered above in the discussion of maintenance costs.

Additional Temporary Equipment: The lease proposal points out that a lessee of Austin's would be entitled to special consideration in the rental of additional trucks or passenger cars, on a temporary basis, for term of hours, days, or weeks, but I have been informed that little difficulty or excess cost has been incurred renting equipment on a temporary basis.

Now that the various fixed weekly costs have been determined for a company-owned unit of local equipment, it only remains to calculate the amount of weekly rental charge. This, as is set forth on Schedule 2, is the total of the $29.80 fixed rate and the $7.12 mileage cost, based on estimated weekly mileage of 150 miles. According to our computations, the savings per week on a company-owned unit

amounts to $3.80, or to $988 over the life of the unit. To this must be added the residual value of the unit at the end of the five years. If the unit has been maintained in good condition, through a preventive maintenance program, it most probably will have value at the end of that period. Recent sales of similar units will provide a reasonable estimate of this residual value. With an estimated residual value of $400 the total saving per company owned unit would amount to $1,388.00.

"After Taxes" Comparison

Most equipment leasing companies stress the tax advantages of leasing. With a view to comparing the "after taxes" results of leased and purchased equipment Schedule 3 was developed. In the preparation of this schedule it was presumed that the company contemplated leasing all its local equipment (fifty units) and the lease proposal discussed above would cover the whole fleet. It was further presumed that the units again had a cost of $4,000 each and would have $400 of residual value at the end of the five years. The figures as set forth are, to a large degree, self-explanatory and represent an annualization of the information developed on Schedule 2. Understandably, as "Depreciation" and "Interest on the average book value" are separately determined the column "Other fixed costs" represents the annual amounts of fixed costs exclusive of these items. While a net profit advantage of ownership each year and over the five-year period is indicated, I feel that the type of lease used in our example does not develop the full potential of this schedule. If the lease proposal called for a declining rental or if the company anticipated using one of the accelerated depreciation methods for tax purposes, then the comparisons developed by this type of schedule would be even more significant.

The March 1 Wall Street Journal had in its main column the following headlines:

"HAUL-IT-YOURSELF
Climbing Freight Costs Spur Firms to
Expand Their Own Truck Fleets
Sohio Slashes Its Distribution Charges
by $750,000 a Year:
Timken Totes for 40% Less."

And the article starts off: "With freight rates going up again soon, we may do more of our own trucking, says the traffic manager of a big Chicago food processing firm." Other traffic managers echo the same thought throughout the article. It would appear that the time has come for the motor carriers of the trucking industry to review all phases of their operations to assure that they are as efficient as possible and that costs are being controlled. A study of leased *versus* purchased equipment could well be part of such a study.

Schedule 1

LEASED VS. PURCHASED TRANSPORTATION EQUIPMENT — COST CONSIDERATIONS

DETAILS OF LEASE PROPOSAL

DATE 5/23/55

COMPLETE MAINTENANCE AND SUPERVISION SERVICE

Austin's Car Rental System, Agent, will provide:

1. Complete maintenance repairs.
2. Road service for wrecks and tire service.
3. Investigation of road accidents and claims.
4. Daily check up and preventive maintenance inspections.
5. Safety instructions and supervision.
6. Washing and polishing of vehicles.
7. All oil, grease and tires.
8. Vehicle license tags and payment of all automobile, gas and oil taxes now in force.
9. Servicing and conditioning of vehicles so that they are "ready to go" at all times.

PAINTING AND SIGN WORK

Vehicles will be painted and lettered as you have specified. Special painting at start: None

Repainting 2½ years. Sign work allowance per job: $5.00

TERM OF LEASE

One year with automatic renewal each year unless cancelled as provided in the contract. Minimum replacement date 5 years from date of delivery.

INSURANCE

Austin's will furnish Public Liability and Property Damage Insurance in limits of $ none provided in event of injury to one person and $ none provided in event of injury to two or more persons in any one accident. Property Damage Insurance Protection up to $ None provided.

Collision protection (damage to leased vehicles): $50.00 deductible

Fire and Theft Insurance: Full coverage on leased units.

GARAGING AND WASHING

Garaging will be furnished 2 nights per week or as necessary for repairs and servicing. The vehicles will be washed at least 1 time(s) per week and polished as needed.

GUARANTEED SERVICE

In event of wreck or unavoidable breakdown to your leased vehicles, we will substitute the most appropriate vehicles available until repairs can be made, thus assuring you of uninterrupted service.

ADDITIONAL TRUCKS

As a Lessee of Austin's you will be entitled to special consideration in the rental of additional trucks or passenger cars, on a temporary basis, for terms of hours, days or weeks.

VEHICLE DESCRIPTION AND RATES

RC-162 I. H. Company trucks with 172" w. b., specifications of which are to agree with your Specifications- #4, dated February 1, 1955. Bodies are to be 18 foot Aluminum Vans with extruded posts with an inside width of 90½ inches and an inside height of 83 inches.

Rate $29.80 per week per unit plus $0.0475 per mile without gasoline and without public liability and property damage insurance.

YOU TO PROVIDE

Your own drivers.

Exceptions to the services listed above:

The above rates do not include any sales tax that may be imposed by your City, County, or State . . . If the retail price, or Austin's cost of the above specified units, is increased before delivery, 30¢ per week will be added to the above quoted weekly charge for each $50.00 of increase. The foregoing proposal is subject to acceptance within thirty days.

Schedule 2

LEASED VS. PURCHASED TRANSPORTATION EQUIPMENT — COST CONSIDERATIONS

	Weekly cost	
	Owned	Leased
Cost of unit including delivery	$4,000.00	
Add: interest on average book value at 4%	400.00	
Total cost of unit	$4,400.00	
Fixed weekly cost:		
Depreciation (5 years)	$ 16.92	
Maintenance (150 miles at $.055 per mile)	8.25	
Washing and polishing	2.00	
Oil, grease and tires	1.25	
Vehicle license tags and oil taxes in force	2.00	
Painting	.70	
Insurance—fire and theft	.35	
Insurance—collision ($50.00 deductible)	1.65	
Rental—weekly fixed rate	—	$29.80
Rental—mileage cost (150 x $.0475)	—	7.12
	$ 33.12	$36.92
Saving per week per company-owned unit	$ 3.80	
Total savings in 5 years	$ 988.00	
Add: residual value of unit (based on sale of units—in past)	400.00	
Total saving per company-owned unit	$1,388.00	

Schedule 3

COMPARATIVE ANNUAL COSTS OF FIFTY LOCAL UNITS

		Annual cost if owned					Annual cost if leased		
Year of use	Average book value	Interest on average book value at 4%	Depreciation	Other fixed costs	Total	Total after tax at 52%	Rental before tax	Rental after tax at 52%	Net profit advantage of ownership
1	$182,000	$ 7,280	$ 36,000	$ 42,120	$ 85,400	$ 40,992	$ 95,992	$ 46,076	$ 5,084
2	146,000	5,840	36,000	42,120	83,960	40,301	95,992	46,076	5,775
3	110,000	4,400	36,000	42,120	82,520	39,610	95,992	46,076	6,466
4	74,000	2,960	36,000	42,120	81,080	38,918	95,992	46,076	7,158
5	38,000	1,520	36,000	42,120	79,640	38,227	95,992	46,076	7,849
Total 5 years		$22,000	$180,000	$210,600	$412,600	$198,048	$479,960	$230,380	$32,332

Early Accounting Firms in New York City

By The Committee on History

To determine the scope of this narrative it was necessary to fix upon the year to which it should be carried. It seemed that the final year should be when relatively few firms had been organized, and before the general adoption of the partnership form by practitioners. In this as in other matters the pioneers would be few, the followers many. Two principal sources were used to decide upon that terminal year.

The first was the list of "The Public Accountants of New York City" in the June, 1896, issue of *Business*. It named 24 firms and 97 persons, a few of whom are recognized as partners in some of the named firms. The ratio of firms to individuals—more than 1 to 4 —indicated that the period of the formation of partnerships had begun before 1896.

The other source was the "Directory of Early American Public Accountants," compiled by A. C. Littleton and published in 1942. It was prepared from the New York Directories from 1850 to 1899. It listed the 24 firms shown in the earlier list and 24 others as well. This was additional evidence that the change from sole practice to that by firms had begun before 1896.

Examination of the 48 listings of firms in this second source and a few facts found elsewhere showed that most of the listings were in the decade from 1887 to 1896. And since the first national society — American Association of Public Accountants—was organized late in 1886, it was decided to classify as early firms only those formed before 1887. However, those organized during the next 10 years to 1896 include many firms which persisted for many years—some to the present; therefore they are here scheduled with the year of their earliest listing in the Directory.

> This is the eighteenth in a series of articles on the History of Accounting in the State of New York. It was prepared by the Society's Committee on History.

In *Business* and the Directory

1891—Deloitte, Dever, Griffiths & Co.
Harney, Henry & Co.
Hart Bros., Tibbetts & Co.

1892—Broaker & Chapman
Brummer & Co.
Smith, Reckitt, Clarke & Co.
Waud, Edmonds & Co.
Whitehead, Clerihew & Co.

1893—Patterson & Corwin
Teele & Dennis

1894—Abrahams, John W. & Co.
Duggett & Ryan
Good & Fellows
MacRae & Cowan

1895—Jones, Caesar & Co.
Kavanagh & Sullivan
N. Y. Acct'g. & Adjustment Co.
Sherton & Chalmers
Waltermire & Co.

1896—Ellis, George S. & Son

In the Directory, only

1887—McKean & Hall

1888—Bureau of Audit
Hartt & Brown
Smith & Inston
Turton, G. L. & Co.

1889—Kerr & Campbell
Townsend, Charles E. & Son

1890—Kane & Peebles
Smith & Moller

1891—Gane, Jackson, Jeffreys & Kenworthy
North, Charles F. & Co.
Price, Waterhouse & Co.

1892—Bergtheil, Horley & Co.
Dixon, Hiram R. & Co.
Safeguard Account Co.

1893—Conant & Crook
Lescher, Herman & Co.
Reid, W. Norton & Co.

1894—American Acct'g. Co.
Byers & Reid
Donnelly & Fisher

1895—Lindsay, Reid & Co.

1896—American Acct'g. & Bkpg. Co.
Haskins & Sells

The New York Directories for the 20 years, 1820 to 1840, have not been examined. But in the other 80 years of the century from 1786 to 1886 the names of 15 accounting firms were found. Of these much has been learned about 5 firms. The other 10 are here named, with the year of the listing and a few facts about 4 of them:

1841	Treadwell & Clark
1868-1869	Bigood & Company
1872-1876	Collins & Co., followed by Jas. R. Collins to 1881
1874	Frederick Ogden & Co.
1876	Butler & Bacon
1878	Dean, Parsons & Buchanan, possibly John Dean, 1878
1878-1882	Cowdrey & Franklin; DeWitt C. Cowdrey followed in 1884
1880-1883	Harding & Burnap; William A. Harding followed to 1898
1881	Campbell & Gifford
1883	Alfred Luttman & Co.

Of these, 3 were listed in 4 or 5 years, 1 in 2 years and 6 in 1 year.

Forty-four firms organized during 1887 to 1896 as outlined in the scope of this study having been listed, as well as 10 firms formed during 1841 to 1883 of whom little more is known, there remain 5 firms of whom something has been learned regarding their practice and more about their partners.

David Franks & Co.

David Franks & Co., 1786, was, so far as learned, the earliest firm of public accountants in New York—possibly in the United States. All that has been learned of the firm and of the partners was found in "The New York Directory" for 1786, compiled by David Franks, and in quotations in "Annals of New York City for 1786 from Newspapers of the Day," both republished by Trow City Directory Company in 1886. They are here given:

> "Franks, D., Conveyancer &c., 66 Broadway" Directory, p. 28

> "NB: Mr. Franks has ready for Publication, a Treatise of BOOK-KEEPING, digested for the inland and foreign Trade of America" Directory, p. 81

> "DAVID FRANKS, Conveyancer and Accountant, No. 66 Broadway
> (Thanks for past favors and quotations for 4 documents)
> "Mr. Franks having served a regular apprenticeship to his father, a very eminent attorney in Dublin, and having, besides, transacted business, for some years, for Counsellor Franklin of said city, ...
> Mr. Franks has lately engaged a young man from Dublin of unexceptionable abilities."
> Directory, p. 82

> "The New York Directory is this day published and to be sold by S. Kollock at his bookstore, opposite the Coffee House; and by Francis Childs, No. 189 Water Street."
> Annals, Feb. 11, p. 102

> "To be let, 132 lots in the Out Ward; inquire of David C. Franks No. 93 Broadway"
> Annals, July 26, p. 161

> "David Franks & Co. have opened a conveyancing and accountants office at No. 24 Water Street"
> Annals, Aug. 1, p. 162

> "On Monday (31st. ult.) after a short passage of 46 days the ship Harbinger, Capt. Wardell, from Bristol, in which came . . . Moses Franks, second son of David Franks. . . ."
> Annals, Aug. 1, p. 163

The second New York Directory was compiled by David Carroll Franks.

At that time, 1786, Bristol was an active port with much foreign trade and was the address of at least one public accountant and probably more.

The foregoing quotations do not tell anything of the practice of the firm of David Franks & Co. But as to its personnel they disclose some facts and suggest others about David Franks and his two sons. David Franks had been in New York prior to 1786, long enough to have had some engagements as a conveyancer for which he expressed thanks. About the first of that year, or earlier, he wished to be known as a public accountant prepared to accept conveyancing and accounting engagements. David Carroll Franks, probably the older son, was located at 73 Broadway, while his father was nearby at 66 Broadway, both residence locations. His offering real estate for rental suggests that he acted as an agent and that these functions were related to activities with his father as a conveyancer. Moses Franks came from Bristol, where there was opportunity for training in accountancy, but that he had such training is not known. However, the fact that the father, who had previously announced himself as an accountant, should have publicized that occupation in a newspaper on August 1, 1786, suggests that it was because of the second son's arrival. Considering the facts shown by contemporary records and the surmises which, though not demonstrated, seem reasonable, it appears that in 1786 David Franks continued to serve as a conveyancer and, with his son David Carroll Franks, kept up directory work; while with his second son, Moses Franks, he opened an office at 24 Water Street for the practice of public accounting, which previously he had conducted from his house at 66 Broadway. Until records of another firm are found it seems proper to assume that David Franks & Co. was the earliest public accounting firm in New York.

While nothing is known of the practice of the Franks firm and too little of its personnel, and while even less has been learned about the 10 firms listed herein as organized between 1841 and 1883, much has been found regarding the practice and partners of 4 firms formed between 1873 and 1883.

The Veysey Firms

This practice was begun by William H. Veysey in 1866. It was conducted by Veysey & Fabian from 1873 to 1876, by Veysey alone from 1876 to 1885, by Veysey & Veysey to 1896, and by James N. Kelley from 1896 to 1904. In March, 1892, an item in *The Office* stated: "This firm was established in 1866 and made many friends by close attention to business, promptness and efficiency of services". That reputation may have caused The Mutual Life Insurance Company of New York to engage the firm early in 1886 to design, install, and supervise the operation of a system of bookkeeping and records for its foreign business. The engagement, which lasted 6 years to March 1, 1892, was carried on by the younger Veysey, who then went with the client. Brief sketches of the 4 partners are here given.

William Henry Veysey was born in Exeter, England, February 10, 1826. Family traditions are that he was educated in a private school, received accountancy training in England, and had a quarrel with an older brother as a result of which he came to America. However no record has been found of any facts or dates relating to his first 31 years. The Jersey City Directory of 1857 showed his residence address as 178 Harrison Street and his employment as accountant at 123 Broad Street, New York. But probably his employment was not in public practice because he was listed as a bookkeeper in 1863, and as with a dry goods house in 1864. In 1866 he was listed as a clerk, the English term for an accountant's assistant. New York Directories of 1869-1872 showed him as in insurance, possibly a side line, and in 1873 as public accountant. But his card in *The Bookkeeper,* October 26,

1886, stated: "Professional Accountant, No. 150 Broadway. Established 1866." He was in practice 30 years: alone from 1866 to 1872 and from 1877 to 1885; in Veysey & Fabian from 1873 to 1876; and in Veysey & Veysey from 1886 to 1896. He was a charter member of the Institute of Accounts and of the American Association of Public Accountants and at once became an officer in each. He read papers before the Institute and wrote articles for *The Bookkeeper* and *The Office*. On his statement as Treasurer of AAPA he used the now outmoded "E&OE." But he could look ahead as in his letter in *The Banking Law Journal* of December 15, 1895:

> "I was the only correspondent who suggested that it should be made illegal for an accountant not to give proper information for investors whose stocks or bonds were offered for sale. I suggested it being made illegal as to accountants only, not as to vendors or promoters, because I wished to see the highest possible standard of honor taken by accountants in the exercise of their obligations."

He died in Brooklyn on July 14, 1896.

Robert Letchworth Fabian was born in England in 1821, a younger son in a prominent family. He went to sea as a cabin boy and became an officer. By 1849 he had come to Cincinnati, and to 1852 was listed as bookkeeper and in 1853 as of Kidder & Fabian, commission merchants. Probably he served in the Civil War. Later, he married Emily S. Johnston. He removed to New York in 1871. From 1873 to 1876 he was a partner in Veysey & Fabian and practiced alone thereafter to 1887. No facts regarding his ability as an accountant are known but it may be implied from his association with Veysey. His standing in this profession is indicated by his election to the committee which formed the AAPA, by his election as its first President, and by the fact that his name is first on the list of incorporators, though he did not live to attend their first meeting. He died in New York on November 16, 1887, and was taken to Spring Grove Cemetery, Cincinnati, for burial.

Walter Hugh Peyton Veysey was born in Jersey City on May 16, 1862, and was the older son of William H. Veysey. He was employed for some time—probably several years—to 1885, when he became a partner in Veysey & Veysey. The next year he took on for the firm the Mutual Life Insurance Company engagement. On March 1, 1892, he became an employee of that company and his status in the firm became that of a special partner. On February 15, 1907, he became Deputy Superintendent of the Foreign Department of the insurance company, retiring October 1, 1919. Like his father he was a charter member of the Institute of Accounts and of the AAPA. He was an incorporator of the latter. He became CPA No. 192 of New York in 1901 and joined the State Society in 1904 and the Accountants' Roundtable in 1910. After his retirement in 1919 he removed to Glendale, California, where he died October 14, 1930.

James Nicholas Kelley was born in County Galway, Ireland, in 1850. When he was 18 he was employed by a London bank and in that and a similar institution spent the 16 years to 1884. Then he came to New York and was on the staff of Veysey & Veysey to 1892, when he was made a partner in the firm in succession to Walter H. P. Veysey, who then became a special partner. He became New York CPA No. 49 in 1896, a member of the State Society in 1897, and its Treasurer from 1898 to 1903, receiving a loving cup at the end of his service. After the death of William H. Veysey in July, 1896, Kelley liquidated the affairs of Veysey & Veysey and succeeded to and carried on the practice under his own name. He became ill and retired in 1904, and died on January 20, 1905.

The Yalden Firms

This practice was begun by James Yalden in 1876. It became Yalden,

Brooks & Donnelly in 1889; Yalden, Brooks and Yalden in 1893; Yalden, Brooks & Walker later in 1893; Yalden, Walker & Co. in 1896; Yalden, Walker & Weiss in 1900; and James Yalden & Co. again in 1902.

A few items indicating the scope and volume of the practice are here given. In December, 1892, when the AAPA was seeking a charter for the New York School of Accounts, Henry R. M. Cook told the Regents about the firm and its senior partner as follows:

> "Mr. James Yalden is the senior partner of the firm of Yalden, Brooks & Donnelly, probably the largest and best known firm of public accountants in the United States. He has been connected with some large matters in accountancy, for instance the celebrated gas investigation in which he was employed by the State, and many others too numerous to mention. His firm has recently completed a long investigation of the whole of the municipal accounts of the City of Detroit."

The gas investigation which Cook mentioned was made for a Special Committee of the State Senate and covered the accounts of several public service corporations. The report, signed "J. Yalden, Public Accountant and Auditor," was included in the Committee Report and covered 24 pages, from 635 to 658. The Detroit engagement was for an audit of the city accounts for the 3 years ended June 30, 1891, which Yalden, Brooks & Donnelly began January 2, 1892, and on which they submitted their report dated July 22, 1892. *Business* of January, 1892, carried the firm's report dated June 9, 1891, on its examination of the accounts of a wholesale grocery for the 10 years ended January 31, 1890. And an industrial client was the United States Milling Company.

Besides the six partners whose names appeared in one or more of the firm titles there were at least three others who were partners. Nothing has been found as to partners, if any, in the first title of J. Yalden & Co., 1876 to 1889. Sketches of 9 partners are here given.

James Yalden was born in Bentworth, England, March 26, 1842. Nothing is known of his education and training but he was in practice as J. Yalden & Co. at 70 Cheapside, London, in 1866. In 1875 and also in 1876 he was a trustee of insolvent estates and had made other investigations. He came to New York in 1876, was a charter member of the AAPA and its President after the death of Robert L. Fabian, held offices in it continuously during 18 years, was guarantor of expenses and trustee of the New York School of Accounts, where he taught government accounts, became CPA No. 138 in 1898, and joined the State Society in 1903. His portrait suggests that he was large and dignified, his speeches indicate that he was thoughtful and optimistic, and AAPA minutes show that he was courteous to those less prominent.

William Henry Brook was born in London in 1851, was graduated from Kings College, Oxford, and became a Fellow of the Institute of Chartered Accountants. He had come to New York by 1886, when he became a charter member of the AAPA and was elected to its council. He resigned in April, 1888, and went to Detroit. There he was with an insurance company for several years and later was Treasurer of Banner Cigar Company. Between these positions he was associated with John H. Clegg on the audit of Wayne County and later was a partner in N. A. Hawkins & Co., while at times he practiced in W. H. Brook Audit Co. He was a founder of the National Association of Accountants and Bookkeepers in 1896, and later was a member of the Incorp. Assn. of Public Accountants of Michigan. He was graduated from Detroit College of Law in 1900, attended the first Congress of Accountants held in St. Louis in 1904, became CPA No. 17 of Michigan in 1906, joined the Michigan Association in 1905, and was its President in 1908. About 1920 he moved to Cleveland, where he taught in Spencerian College

and founded the Brook School of Commerce, Accounts and Finance. In 1927 he returned to Detroit, where he died June 23, 1930. It is not certain that he was of the Yalden firm. Some of the items found may refer to him or to William M. Brooks, whose career is covered in the next paragraph.

William M. Brooks was born in England—place and date not learned. He had come to New York and been employed by the Yalden firm to 1889, when he became a partner in Yalden, Brooks & Donnelly and later in its two successors. He became an Associate of the AAPA in 1888, a Fellow in 1892. He was a guarantor of expenses of the New York School of Accounts, in which he taught insurance accounting. January 16, 1895, was his busy day. The previous day he had submitted his report for the Yalden firm on the accounts of the Detroit Fire Commission. On the 16th the *Free Press* said the report "charged many irregularities and shortcomings." That afternoon the *News* stated that the Secretary of the Fire Commission had made an affidavit for the arrest of Brooks, "charging that he had damaged his character and claiming that the report was false, libelous and malicious." That morning a Deputy Sheriff arrested Brooks. But within a few hours Mayor Pingree and Alderman Berk provided bail and he was released. The affair seems to have been a fight by the Mayor and at least one Alderman against the majority of the Council. Brooks remained at liberty. He returned to England in 1896.

George W. Donnelly probably was born in England, since all other partners were Englishmen except Walker, who was next door, a Canadian. He had been with the Yalden firm for several years when, in 1889, he became a partner and remained as such for about 4 years. He had become an Associate of the AAPA on March 6, 1888, and was advanced to Fellow on January 26, 1892. After he left the Yalden firm he was of Donnelly & Fisher in 1894, and was listed as in practice alone from 1895 to 1897. Nothing more has been found; perhaps he returned to England.

Louis Yalden, brother of James, was born in Medsted, England, on March 30, 1861. He had been in New York and probably in the employ of the Yalden firm several years before 1888. He may have been a partner in Yalden, Brooks & Donnelly, and he surely was a partner in Yalden, Brooks & Yalden from 1892. He was one of the first Associates of the AAPA (March 6, 1888) and became a Fellow on January 26, 1892. Immediately thereafter, on February 6, 1892, he was elected a Trustee. He attended the meeting with the Regents on June 18, 1892, when the Association asked for a charter for a College of Accounts. He was a guarantor of the expenses of the New York School of Accounts, in which he had agreed to teach the theory and practice of bookkeeping, but was prevented from doing so by his death on September 19, 1893. As to his ability as an accountant the *Banking Law Journal* of October 1, 1893, quoted a "most eminent financier" as having said of him: "the most promising accountant—the most brilliant man of the future—has passed away."

Alfred Percy Walker was born in Canada about 1862 or 1863. He was a brother of Sir Edmund Walker, who for many years was the head of the Canadian Bank of Commerce. He was employed by the Yalden firm from 1885 to 1893, became a partner in Yalden, Brooks & Walker in 1895, and continued in the succeeding firms to 1903. Then for a short time he was a partner in Walker & Kenworthy, but in 1903 went with Standard Milling Company, of which he was President from 1914 to 1929. He became a Fellow of AAPA in 1893 and attended the Joint Legislative Meeting on March 13, 1895, the purpose of which was to obtain statutory recognition of the profession. He became New York CPA No. 74 in 1896, a Governor of the National Society of CPAs in 1897,

and a member of the State Society in 1903. He died in Pelham Manor about 1932.

Richard Neville Hutchinson, of whom no biography has been found, was born in England. He became CPA No. 46 in 1896. This indicates that he had been in public accounting since 1891, either here or in England. After some time with the Yalden firm he was a partner in Yalden, Walker & Co. from 1896 to 1900. Then he practiced alone in New York all or part of 13 years. From 1914 he was listed as practicing alone in Hartford, Connecticut, and in 1915 as of Rothwell, Hutchinson & Co. By 1920 he was shown as having branches, perhaps only correspondents, in New York and Washington. He had become an Associate of AAPA in 1896 and a Fellow in 1897, when also he joined the National Society of CPAs. He returned to England in 1921.

William Frederick Weiss was born in Germany in 1860 and in 1880 came to New York, where he worked for Armour & Company for several years. In 1894, after a brief period in practice, he became president of New York Steam Company. During 1897 and 1898 he was in practice as Weiss & Johnson, and for a little over two years, 1900 to 1902, he was a partner in Yalden, Walker & Weiss. From 1903 he was the head of his own firm except for a period in 1913 when he was the New York partner in Macpherson, Weiss & Co. He became New York CPA No. 141 in 1898, a Fellow of AAPA in 1899, a member of the State Society in 1902, and its President in 1912. He died April 16, 1939.

Percy A. Yalden, son of James, was born in Brixton, England, on November 4, 1873. After employment by Yalden, Walker & Co., he became a partner in that firm in 1903 and afterward in its successor, J. Yalden & Co. After the death of his father, in 1905, he continued the practice under the same firm name, but probably alone. He became an Associate of AAPA in 1896. He died in New York late in the summer of 1936.

The Martin Firm

The Martin firm was not mentioned in the "Recollections" by James T. Anyon, as were the Veysey and Yalden firms. This account is based upon stories in the *Financial Record* of May 9, 1894, and January 9, 1895, the *Pace Student* of October, 1932, the New York Directories, and correspondence with the founder's grandson.

The practice was begun by Andrew B. Martin in 1863, continued by the firm of Andrew B. & Clarence A. Martin from 1880 to 1911 (although the firm was listed in the 1882 Directory as Martin Brothers), and then by Clarence A. Martin alone from 1911 to 1928. While information to segregate the engagements by these periods is not available, there are records which indicate that the practice included engagements on commercial, fiduciary, and utility accounts, with perhaps an exceptional number on municipal accounts. Sketches of two partners and of a possible third are given here.

Andrew B. Martin was born in Monoghan, Ireland, on February 7, 1830. His schooling ended when he was only 11. When 19 he came to Montreal, where he was employed on a newspaper. Later he spent 4 years in the west, but by 1863 was living in Brooklyn and had an office in New York. He served on the Brooklyn Board of Education and, in 1883, became Commissioner of Accounts of New York.

Clarence A. Martin, son of Andrew B. Martin, was born in New York on January 7, 1859. He attended Brooklyn public schools. In 1878 he began work for his father and in 1880 became a partner.

Father and son became CPA's Nos. 24 and 25 in 1896; both were members of AAPA 1896-1898; both joined the National Society of CPA's in August, 1897, and the New York

State Society of CPA's in November, 1897. Andrew B. Martin died July 18, 1911, and Clarence A. Martin died October 22, 1928.

Henry Marshall Tate was associated with Andrew B. Martin or the firm on an examination which covered nearly a century of the accounts of the Chamberlain of New York. This may have been a special partnership for that one job.

The Barrow Wade Guthrie Firm

The only account of the organization of this firm in 1883 is that contained in the "Recollections" of James T. Anyon, published in 1925. But the author, who came here in October, 1886, stated that he wrote it on trains. His story must have been written from memory of what he had been told. He wrote that "the firm was of sudden and somewhat spontaneous creation." But Edwin Guthrie and his partners in Manchester, England, probably knew that Quilter, Ball & Co. and Turquand, Youngs & Co. had been here in 1870 in connection with the accounts of the Erie Railroad and that Price, Waterhouse & Co. of London had sent accountants here on several occasions. And they may have thought that a branch office or correspondent in New York might lead to their being engaged for such overseas work. Also, it is unlikely that Guthrie would have put Wade into an American firm unless that idea had been considered before he came here from Manchester, England.

In the "Recollections" the author stated that upon arrival Guthrie's "first thought was to find a good accounting firm to assist him in his investigations." Perhaps also he sought a firm to become a branch office. As shown herein, the Yalden firm was the largest in America and the Veysey and Martin firms were well established. Thomas Bagot, William Calhoun, James Cox, Robert L. Fabian, Ebenezer Irons, Henry M. Tate, and others had been in practice for 5 to 10 years or longer. Probably some would have been willing to become correspondents but were not disposed to forego their independence and to become branch offices. However Guthrie found one individual with whom he could accomplish both purposes. The "Recollections" stated that the partnership was formed in October, 1883.

The earliest mention of the firm was that in *The Accountant* of London on January 5, 1884, as follows:

> "Messrs. Thomas, Wade, Guthrie & Co., chartered accountants, of 32 Brown Street, Manchester, announce that they have made arrangements with Mr. J. W. Barrow, of New York, by which Mr. Wade and Mr. Guthrie become members of the firm of Barrow, Wade, Guthrie & Co., public accountants, in that city, Mr. Barrow (who has been a resident there for 30 years) taking the personal management of the New York office and staff. Mr. Thomas (in view of his early retirement) has not joined in the American arrangement, but retains his usual conduct of business; Mr. Wade and Mr. Guthrie continuing theirs, and residing at Manchester as hitherto."

The firm continued the practice previously conducted by Barrow, which was described in the "Recollections" in two sentences:

> "His main business was in connection with certain British fire insurance companies, being employed by them to check the vouchers and certify to the clerical accuracy of the monthly statements prepared by the Branches here before being sent to the home offices abroad. This work constituted his only practice."

The story also stated that Barrow was an actuary. After his death and the retirement of his successor, who had been Barrow's assistant, an actuary came from England in 1886, and in 1887 became a partner at the same time as Anyon. Therefore it seems that the Barrow practice was not only that of checking vouchers and the clerical accuracy of statements but was also at least actuarial work upon the transactions which preceded the vouchers and statements. And research to learn more about Barrow and the assistant

who became a partner after Barrow died has developed facts which show that before 1883 Barrow had indicated his availability as auditor and for other public accounting services. Sketches of eight accountants who became partners before or by 1904 are given here.

John Wylie Barrow was born in London on June 18, 1828. His parents' names have not been learned, but his father's sister, Elizabeth Barrow, married John Dickens and was the mother of Charles Dickens. This relationship, his father's help in financing his education, and his appointments in the British diplomatic service while in his early twenties suggest that the family, though not rich, was that of the middle-class Englishman.

His early education was acquired at Calcutta House and St. Peters School. When eight years old he won a first-class prize in Greek and later won others. In 1842, when 14 years of age, he left school and spent two years in an office, using his first earnings to buy a copy of Clarke's *Homer.* At 16, with his father's permission, he left that work and entered a school at Frankfort-on-Main and prepared for admission to the University of Heidelberg. But he remained at the University only a few months because, it was stated, of a want of means, but possibly also because he was appointed Secretary of Legation at Rome, where he made valuable acquaintances and was allowed privileges for study at the Vatican. A special privilege there was that of taking casts of all the sculptures in the Vatican.

Afterward, before he was 22, he filled a similar position in Vienna. During this service he made a short visit to England, where, on February 14, 1850, The Freedom of the City of London was conferred on him.

In the summer of 1851, following his experience in the British diplomatic service—probably because of it—the Italian and Austrian Governments appointed him one of their Commissioners to the London Exhibition. For that service he received a bronze medal from Prince Albert, and from the Emperor of Austria a copy of the Lord's Prayer in 608 languages.

Then, in 1853, when he was 25, he served as commissioner to the Crystal Palace in New York, where he had charge of the works of art of German and Italian artists. Before taking up his business and professional life in New York it seems appropriate to continue the story of his linguistic and other attainments and their recognition.

Prior to his appointments as legation secretary in Rome and Vienna he was speaking fluently all modern languages of Europe. Earlier, when only eight, he read the New Testament in Greek and was proficient also in Latin. But he was preeminent in the Hebrew and Chaldean languages. And with a dream of entering the East India service he mastered the rudiments of Arabic and Hindustani and made much progress in Chinese. Yale College conferred on him the honorary degree of M.A. The scope and depth of his learning are indicated by his memberships. The Semitic Club of New York was organized in his residence. The Greek Club of New York welcomed him—he corresponded in Greek. The American Oriental Society admitted him October 14, 1868, made him a life member in October, 1869, and elected him a director on May 21, 1879. His paper "On a Hebrew MS of the Penteteuch, from the Jewish Congregation at Kai-fung-fu in China" was read before the Society on May 19, 1869.

Besides his proficiency in languages, Barrow was a mathematician and was interested in electricity, chemistry, and other sciences. He collected much apparatus for scientific purposes which was used by the Franklin Scientific Association, of which he was the founder and first president. After his death the collection was placed at Yale University.

In 1853, after the close of the Crystal Palace, he decided to remain here.

While not an important fact it is a matter of interest that his great-great-grandfather, Gualterius DuBois, had been an early minister of the Dutch church here.

Despite Barrow's learning and diplomatic experience he entered upon a long period in the mercantile business. From 1853 to 1874 he was associated with J. R. Jaffray & Co., which apparently specialized in laces and other imports. Prior to 1861 he was listed as a clerk. It is uncertain whether that meant a salesman as the word is used in the United States or a bookkeeper, etc., as used in England. But from 1861 to 1874 he was a partner in the New York and London houses of the Jaffray firm, whose address was 350 Broadway. The 1875 Directory did not show his occupation but in the 1876 and 1877 issues he was listed as a merchant at 31 Broad Street, where also he had been listed in 1875. Perhaps the 1875-1877 issues should have listed him as auditor or public accountant, as did the later issues, 1878-1884.

When, where, or how he had learned bookkeeping is not known. Perhaps it was during the two years from 1842 to 1844, when he was employed in an office, or during the periods when he was in the diplomatic or exposition services, or while he was with the Jaffray firm. With his disposition to study, he may have taken it up without any expectation that he would ever use it.

In 1883 Barrow accepted Edwin Guthrie's suggestion that he become the American representative of the Manchester firm of Thomas, Wade, Guthrie & Co. But that his name should lead in the title of the new firm may not have been because of his family connections, or of his literary and scientific attainments, or even of his ability as an actuary. More probably it was because Guthrie had learned of Barrow's practice as a public accountant since 1878 or 1875 and considered that Barrow's acquaintances during thirty years would look at the new firm as an expansion of Barrow's practice.

All that is known of this practice is that it included work from four British insurance companies. That gave him some standing in England. And his business life of thirty years in New York gave him a standing of which Guthrie's attorneys knew. His listing as a public accountant must be accepted as correct unless clearly disproved. Probably Barrow knew of the early firms and sole practitioners. And possibly he had been engaged for some work other than that for the British insurance companies.

But his management of the new firm was brief, not over eighteen months, at the most, from October, 1883, for he died April 25, 1885. His funeral service was held on April 28 at St. Bartholomew's Church.

Charles Henry Wade and *Edwin Guthrie* of the Manchester firm of Thomas, Wade, Guthrie & Co. were mentioned in *The Accountant* of December 21, 1878, as present at a meeting on December 16 attended by many Manchester accountants and by representatives from 7 or more nearby cities. It had been called for the purpose of forming an association. Wade was chosen as chairman and he made and Guthrie seconded a resolution by which the "meeting resolves itself into the Accountants Incorporation Association." Later both were elected to a committee of 9 to draft its rules and by-laws. No later mention of this Association appeared in that periodical but an earlier Society of Accountants established in 1871 at Manchester was one of those which secured the Charter for the Institute of Chartered Accountants in England and Wales on May 11, 1880. The Charter named Wade and Guthrie as among the 45 who were the first members of the Council. Wade served thereon until his resignation was accepted on October 3, 1906, Guthrie until his death on August 21, 1904. Both were present at many of its meet-

ings and one or the other was present at most of the other sessions.

While Barrow, Wade, Guthrie & Co. was not a branch of the Manchester firm, they were closely associated, and events in Manchester were reflected in New York. Mr. Thomas, whose retirement was forecast in the January, 1884, item, withdrew from the Manchester firm December 31, 1892, and Henry Simmons became a partner. In September, 1895, that firm was dissolved. Then C. H. Wade & Co. continued the Wade practice in Manchester and London, and Guthrie and Simmons (John Jackson and F. T. Wooley from January 1, 1896) retained the firm's offices in both cities and practiced as Edwin Guthrie & Co. At that time, September, 1895, or earlier, Wade and Guthrie retired from the New York firm and the Guthrie firm became its correspondent in England. There is no record that Wade ever came to New York or that Guthrie was here after his visits in 1883 and 1886. On his last visit he had assisted in the organization in 1886 of the American Association of Public Accountants, and both he and Wade were invited to become members of it but neither did so.

Nothing has been learned regarding the place and dates of Wade's other activities or of his birth or death. But Guthrie's obituaries state that Guthrie was born in London in 1841 and went to Manchester at an early age. Although the notices do not tell anything of his education or training as an accountant, one states that in 1875, when he was 35, he was made a partner in Thomas, Wade, Guthrie & Co. and that he was active in many civic and philanthropic movements.

Oscar E. Morton was listed in the New York Directories of 1886 to 1906 and in the list of New York CPA's as well as in the "Recollections." While no record of his birth, education, or training has been found, it is probable that he had been with Barrow for some time—perhaps several years prior to the fall of 1883—and understood not only the accounting work but also that of an actuarial nature. That he was experienced in these fields seems clear because he carried on the work for 18 months after Barrow's death, and promptly after he was displaced late in 1886 an actuary was brought from England. The "Recollections" state that he notified the English partners by cable of Barrow's death and that he was conducting the business of the firm. Thereupon he was made a partner, practically taking the place and interest of Barrow. The Directory therefore listed him in 1886 as at 45 William Street, to which Barrow had removed the firm's office about 1884. Morton applied for a CPA certificate by waiver and became New York CPA No. 78 not long after Anyon became CPA No. 31, both in 1896. Morton continued in practice for 13 years or more, being listed until 1899. Nothing later has been learned.

James Thornley Anyon was born in Preston, England, October 3, 1851. He was educated as an engineer at the Normal College in Manchester. But in 1874 he began an apprenticeship with Charles Tattersoll & Co., accountants, and became an ACA, later FCA. After a period with Thomas, Wade, Guthrie & Co., FCA, of Manchester, he came to New York with Edwin Guthrie on October 25, 1886, and became manager of Barrow, Wade, Guthrie & Co. and a partner in that firm in October, 1887. On or before September 30, 1895, when Wade and Guthrie dissolved the Manchester firm and withdrew from Barrow, Wade, Guthrie & Co., he, perhaps with his New York partners, acquired the interests of the foreign partners. Thereafter he was the head of the firm and during that period it began its nation-wide expansion. During World War I he was Treasurer of Eddystone Ammunition Corporation, acting for the British government.

Very soon after he came here in 1886, Edwin Guthrie told him of his conference with John Heins and John

(Continued on page 390)

Price Adjustments Resulting from Changes in Government Contracts

By PAUL M. TRUEGER, C.P.A.

For various reasons, discussed herein, original government contract requirements are often subject to changes which frequently result in increased costs, over and above those contemplated in the original bid or quotation submitted. The responsibility for initiating action leading to price adjustment because of increased costs is generally in the contractor.

ALTHOUGH total defense spending appears to have leveled off at a fairly high plateau, the extent of emphasis, and funds provided for aircraft, nuclear weapons, guided missiles and related special items, have resulted in an actual decrease in contracts awarded for the many other supplies purchased by the armed forces. Again, while our national economy is generally healthy and striving, soft spots have appeared in many specific industries. The combination of these two factors has brought about a significant increase in competition for certain defense contracts. In many fields, bids and quotations must be computed very closely if the company is to stand a chance of receiving the award. Accordingly, the portion of the contract price available for profit is often so small and precarious that the least impact of unanticipated costs may well throw a modest profit into a loss.

Changes to Government Contracts

Many of the supplies purchased by the military departments are totally non-standard items or modified standard items. Many of them are constantly in process of revision and further development; some prove ineffective, or less than fully effective when subjected to field tests; some components of major items fail to assemble in the precise manner intended; new discoveries make obsolete certain materiel at the earliest stages of production; in some instances, Government devised specifications prove faulty. In addition to factors of the type enumerated, Government contract requirements change by reason of the need to accelerate or stretch out deliveries; because the Government furnishes more or less equipment and supplies than originally intended; because the equipment or supplies furnished is delivered late, in substituted form or not at all. For these reasons and others, original contract requirements are often subject to change. The changes frequently result in increased costs, over and above those contemplated in the original bid or quotation submitted. The responsibility for initiating action leading to price adjustment because of increased costs is generally in the contractor.

PAUL M. TRUEGER, C.P.A., was formerly associated with the Army Air Force, Contract Audit Branch, and with several C.P.A. firms. He has written for various accounting journals and is the author of the book entitled "Accounting Guide for Defense Contracts".

Price Adjustment Resulting from Changes vs. Price Redetermination

A careful distinction must be made between price adjustments resulting from changes and those arising from price redetermination or price escalation. In the latter instances, funds are made available to the procurement dis-

trict in the amount of the ceiling price, and funds are obligated for the target price. The contractor is entitled to, and monies are available for the redetermined amount up to the ceiling price. Procurement districts do not ordinarily have the funds for price adjustments resulting from changes, and must get them from higher authorities. It is important that all change orders be agreed upon, translated into dollar amounts and formalized by contractual amendments increasing the contract target (and ceiling where redeterminable) price. Additional amounts arising from changes should not come out of the spread between target and ceiling prices, otherwise the contractor may find the additional costs intermingled with price redetermination factors and fail to fully recover.

A recent dispute on this subject between the Government and a contractor was taken up to the Armed Services Board of Contract Appeals and decided in favor of the contractor. This was an Army negotiated contract, subject to price redetermination, and contained a definitely stated ceiling price. The contract also contained the standard "Changes" clause. The contractor's plant was designated as the place of inspection and acceptance. A number of the units shipped had been inspected and found acceptable at the contractor's plant; however, when the materiel arrived at the Army destination point, it was re-inspected and rejected. The rejected units were returned and the contractor was notified that no further units would be accepted until the rejected units were replaced. The contractor protested to the contracting officer but was directed to comply with those instructions. The contractor reworked the rejected units, expending additional costs not contemplated in the originally negotiated contract price. These extra costs were at first not claimed by the contractor and, at the completion of the contract, negotiations were conducted under the price redetermination article. The review of the costs incurred under the contract, other than the additional costs resulting from the required rework, revealed that the contractor was entitled to the ceiling price. At this time the contractor was correctly advised to claim the rework costs separately. The claim was rejected by the contracting officer, and was appealed to the Armed Services Board of Contract Appeals. The Board directed the contracting officer to issue a formal change order and both parties to negotiate pursuant to the "Changes" clause to effect an equitable adjustment of both the target and ceiling prices. The Board further ruled that after the prices had been revised to reflect the effect of the changed contractual requirements, both parties should then conduct negotiations under the price redetermination clause.

Changes in Drawings, Designs or Specifications

One of the most frequently encountered categories of circumstances leading to changes in Government contracts comprises revisions in drawings, designs or specifications. The changes may be initiated by the Government for reasons mentioned earlier, or they may be proposed by the contractor where production discloses that the originally furnished Government specifications are not suitable. These types of changes are usually the readiest to support a contract price adjustment. As a matter of fact, Boards of Contract Appeals will go to great lengths to assure that a contractor receives equity, as illustrated by a case ruled upon by the Department of Interior Board of Contract Appeals.

The contractor filed an appeal for additional compensation as a result of being required to re-lay portions of sewer pipe. The facts revealed that after construction of the sewer had begun, it was discovered that the plans for the sewer system were in error,

and changes were agreed upon between the contractor and the Government project engineer. In the subsequent findings of fact, the contracting officer stated that he could not determine conclusively whether the error was made by the Government engineer or the contractor and, therefore, he rejected the contractor's claim. The Board ruled for the contractor and instructed the contracting officer to effect the change order to compensate the contractor for the extra costs incurred in re-laying portions of the sewer pipe.

Changes in Methods of Shipping or Packing, Place of Delivery

Shipping or packing changes frequently result when experience early in the contract discloses the failure of the originally planned methods to effect delivery at the time and in the condition intended. Also, packing changes are required when items intended for use at military installations within the continental limits of this country are diverted to our armed forces stationed overseas, or vice versa. Changes by the Government as to places of delivery become important when the contractual items are FOB destination.

Changes in Delivery Schedules

Changes in delivery schedules fall into four categories; quantities, increase or decrease; time, acceleration or "stretch-out". Inasmuch as the original contract is undertaken under a definitely stated rate of production which will permit shipments under the delivery schedule, any of the four changes may result in increased costs.

In an action brought before a Board of Contract Appeals, the contracting officer had issued two stop orders while the contract was in progress, thus delaying the completion of the work. The contractor submitted a claim for costs resulting from the suspended work. The contracting officer denied the claim on the grounds that it represented unliquidated damages which he was unauthorized to settle. The Board found that a portion of the claim did represent unliquidated damages but allowed the remainder, finding it to represent an equitable adjustment under the "changes" clause of the contract. The Board reasoned that where a stop order revised the schedule of performance, with the result that the contractor incurred additional costs, the stop order constituted a change, and the contractor was entitled to recover. In addition, the Board held that when a stop order results in changes, such as extra work, elimination of work, etc., the additional compensation claimed in this connection is also recoverable by the contractor.

Failure or Delay in Supplying Government Furnished Property

Government contracts frequently provide that the Government will furnish certain property to the contractor to assist in production. The property may be in the form of basic material (cloth for the manufacture of uniforms), special production equipment, test equipment, models, tools, prints, drawings, etc. Contract planning, production lines, delivery schedules, etc., are all predicated, obviously, on the receipt of the Government furnished property of the type required for the job, and at the time needed. When the property is not received, when it is faulty or otherwise unsuitable for the purposes intended, or when it is not received at the time required, production may be severely hampered and costs over and above those contemplated at the time the contract bid or quotation was submitted will be incurred. All such costs are properly recoverable under the "changes" clause of the contract.

In a recent experience of the writer, a contract provided that the contractor was to be furnished with the latest working model of the end item as a guide in manufacturing. It developed, however, that such a model was not available and, instead, the Government

furnished an old model which required considerable additional engineering. In this instance, a request for an equitable adjustment in price under the "changes" article was processed.

Another experience of this writer involved delays by the Government in furnishing sateen and other materials under a "cut, make and trim" contract for Army overcoats. The claim submitted for costs incurred attributable to the delays was denied by the Government mainly on the grounds that such costs constituted "consequential damages". The Armed Services Board of Contract Appeals ruled against the Government. It noted that when the Government failed to deliver the material on time, the contractor could not buy the material on the market and charge the Government excess cost. Such excess costs would normally be considered direct or general damages. Comparably, the contractor in this instance had to delay production until the Government-furnished property arrived. The direct and natural result of the delay, the Board held, was the lack of material for manufacturing and the costs claimed were the direct result of this condition. The Board directed the contracting officer then to grant an equitable adjustment. The ultimate recovery by the contractor included manufacturing overhead and administrative expenses, based on the excess of the ratio of these indirect costs to direct labor during the shut-down and slow-down periods as compared with the rates that obtained in the periods of normal production.

Claims for price increases under the "changes" article are usually a routine matter. From time to time, however, certain intricacies creep in and settlements can be effected with contracting officers. Where the costs can be reasonably supported and attributed to failures or delays by the Government in furnishing prescribed property, favorable consideration can be obtained from Armed Services Board of Contract Appeals.

Other Factors Warranting Price Adjustment Under "Changes" Clause

There are numerous other conditions arising in the course of Government contracts which result in additional costs and for which the contractor should seek price adjustment. Some of these circumstances are illustrated below, extracted from cases in which the contractor successfully obtained compensation.

During the progress of a Government contract, it developed that the Government was unable to supply certain components as originally agreed upon. With the approval of the contracting officer, the contractor purchased the components from a dealer and was reimbursed at actual costs. The components were inspected by both contractor employed and Government inspectors and found to be satisfactory. Subsequently, during the inspection of the end items by the Government, the product was found to be unsuitable because the mentioned components were defective. Further investigation disclosed that the purchased components were not new and unused, as the contractor and the Government had thought, but represented a lot with new and used components intermingled. As a result, a number of end items were found to be defective and reworked by the contractor. The contractor's claim for the rework costs was upheld.

Another illustration deals with a Government inspector who informed a contractor that he would reject all items which did not meet inspection standards higher than those established in the contract. The contractor protested, but expended considerable costs in devising methods under which the product could meet the higher inspection standards; the costs involved were submitted for price adjustment under the "changes" clause. The claim was denied by the contracting officer mainly on the grounds that he had not directed the change. The Armed Services Board of Contract Appeals, however,

ruled that the inspector stationed at the contractor's plant was the Government representative and that the contractor would be correct in believing that he was acting within his authority when he required the change. It held, therefore, that the contractor was entitled to a reasonable adjustment in price.

There are also instances where contractors manufactured supplies under processes or specifications stated in the contract, and the supplies failed to pass inspection. The additional costs are recoverable under the "changes" clause.

Procedures Incident to Effecting Price Adjustments

A basic tenet of Government procurement is to obtain needed services and supplies at fair and reasonable prices. The negotiation of equitable price adjustments in consideration of changes to the original contractual agreements is inherent in this tenet. Contractors who do not avail themselves of their rights in law and equity in these circumstances are usually those failing in one or more of the following responsibilities.

1. *Complete Knowledge of Contract Requirements:*

The first and rather obvious condition precedent to the recovery of additional costs resulting from changes to requirements, is the intimate knowledge of the exact original contract obligations. In some instances, this knowledge is monopolized by a limited number of the contractor's staff instead of being available to the required personnel concerned in the manufacturing, engineering, purchasing, accounting, and legal aspects of contract performance.

2. *Timely Notification to, and Coordination with Contracting Officer:*

The "Government", in the broad sense, is a large, complicated, mysterious mass. The contracting officer, however, as a single human being, represents the basis by which the huge Government mass is reduced to an understandable and accessible working contact. The contracting officer should be notified immediately upon the discovery that the performance of the contract will need to proceed under changed conditions, and a basis must be established for close follow-up and coordination which will continue until the matter is concluded.

3. *Documentation:*

Perhaps the major and most frustrating cause of difficulties and controversies is the impatience and disregard for documentation on the part of "executives", "scientists", and others, who just cannot be bothered with compiling the files necessary to support required future action. Life would be infinitely easier for those who are called upon to effect final resolutions if everyone concerned did his part throughout. As soon as the need for changes involving additional funds is determined, historical files should be initiated and carefully maintained. Telephone calls and conferences should be supported by memoranda; all matters of importance should be confirmed by letters, and replies thereto insisted upon; basic approvals should be sought as early as possible and from authoritative sources; files should be complete as to all the implications of the changes required—additional or more costly methods and materials, additional engineering requirements, exact periods of interruptions, or slow downs, impact of terminations of subcontractors and suppliers, precise data as to period and effect of idle machines and manpower. The matters to be included in the files should be prepared by the applicable experts, under the supervision of one individual designated to coordinate the entire case.

4. *Cost Data in Support of Price Adjustment:*

All of the data cited in the above paragraph must be expeditiously translated into monetary effects in prepara-

tion for the ultimate submission of the adjustment and/or claim. Too often contractors submit some of the more obvious cost increases but overlook the less apparent factors which may actually constitute a more significant factor. The following check list, while not all-inclusive, will serve to suggest the types of costs which should be considered in developing the cost of changes to Government contracts.

(a) *Research, Development and Engineering* — direct salaries and wages of the personnel involved, direct materials and supplies, and applicable overhead.

(b) *Purchasing*—suppliers' termination charges, cost of additional materials required.

(c) *Material Control*—cost of material made obsolete by changes, plus the expense of segregating, removing, storing, diverting, disposing, etc., thereof.

(d) *Other Production Costs*—direct labor costs incurred on obsolete materials, direct labor additionally required, plus all related manufacturing overhead, costs of all tools, equipment and facilities made obsolete by the changes or additionally required thereby.

(e) *Applicable General and Administrative Expense*—including direct items where applicable, and prorata share of total pools of such expenses.

(f) *Special Costs* — particularly in the event of changes resulting in decreases in quantities, stretch-outs, etc., substantial costs may be incurred, both of a direct nature, where direct productive employees are idle and cannot be diverted, and of an indirect category, in terms of unabsorbed burden. The latter category is often difficult to develop. Where a precise basis cannot be found, a satisfactory expedient may be used by comparing the engineering, manufacturing and administrative expense rates which obtained (or projected) in the periods of interruptions or stretch-outs, with the rates experienced during periods of full production.

5. *Final Review and Processing:*

If the coordination with the contracting officer has been effective, a meeting of minds attained and documented, files carefully compiled to support all factors which require consideration, and the effects accurately costed, the contractor may expect to submit his proposal and satisfactorily and promptly negotiate an equitable price adjustment which will permit full recovery of all costs incurred in excess of those contemplated by the original contract terms. Breakdowns in any of these categories, or misunderstandings with procurement officials, however, will result in prolonged negotiations or even appeals to an Armed Services Board of Contract Appeals. A high premium must be placed on effective procedures which will obviate disputes, including the all important final review to determine that all the facts are carefully marshalled, supported, and presented, and the equitable price adjustment formalized by a formal change order.

Codification of Statements on Auditing Procedure

The Board of Directors of the Society feels that the growing acceptance by the profession throughout the country of the pronouncements of the Committee on Auditing Procedure of the American Institute of Accountants, makes it a matter of great importance that all members of the Society be fully informed with respect to them. Accordingly, it has been decided to publish, in serial form, in THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT, *the two principal Institute publications in which they are set forth, namely, "Generally Accepted Auditing Standards, Their Significance and Scope", and "Codification of Statements on Auditing Procedure". The following reprint is the fourth in the series dealing with the "Codification".*

IV—CLIENTS' WRITTEN REPRESENTATIONS REGARDING INVENTORIES, LIABILITIES, AND OTHER MATTERS

A survey made in 1941 for the purpose of determining the form and content of written representations obtained by practicing independent certified public accountants from their clients produced considerable information which should be useful as reference material to accounting practitioners.

Fifty-two public accounting firms, large and small, partners of which are members of the Institute, contributed to the survey.

Many of the moderate-sized and smaller firms which require written representations from clients respecting inventories and liabilities do not require them in every engagement and do not use special forms. The material covered varies widely and certain aspects are covered in the inventory form of one firm and in the liability form of another. While the language used shows little similarity the purpose and desired effect are uniform.

The practice of requiring a comprehensive written representation covering practically all items in the balance-sheet is limited to some of the larger firms, but those which use it are of sufficient coverage that a description of these representations is desirable.

[page 49] The information shown by written representations would have to be obtained, where pertinent, either orally or in writing. Reducing it to writing provides evidence, avoids misunderstandings, and has the additional advantage of reminding the client of his primary responsibility for the correctness of the statements. There is no evidence that the representations are regarded as relieving the independent auditor of any of his audit functions or responsibilities. The purpose is rather to secure the active cooperation of the client. They complement, rather than substitute for, a proper examination, and every practicable means should be used to substantiate the information developed by the inquiries.

Information regarding liabilities obtained from the client's legal counsel, however, is in a different category. If the client's legal counsel states that he knows of no contingent liabilities in respect to litigation, it appears that the independent auditor is entitled to rely on his statement.

Preparation of standard forms for general use is not considered feasible but it is believed that a summary of practice will be useful in assisting the

independent certified public accountant to compare his usage with that of other practitioners or to revise his present forms or devise others to meet his individual needs.

Presented herewith are:

Skeleton form of representation covering inventories and notes thereon

Description of representation covering liabilities

Description of comprehensive representation.

Written Representation Covering Inventories

Blank Company,
Certified Public Accountants,
Blank Street, City

Dear Sirs:

In connection with your examination of the accounts of (blank company) and more particularly in connection with your examination of the (blank company or department) as at (blank date), we hereby make the following statements and representations concerning inventories of (blank company):

A. Quantities and Amount
B. Title and Ownership
C. Prices and Calculations
D. Commitments
E. Condition

[**page 50**] The foregoing constitutes a fair statement of quantities and valuations of the respective inventories as at (date as of which audit is made) to the best of the knowledge and belief of the undersigned.

(Signature)

(Date signed)

Notes On Written Inventory Representation

General

The representation may be prepared for one or for several classifications of material, as raw materials, goods in process, finished goods, supplies, and may be subdivided, if convenient, and if the amount is sufficiently important, into separate representations for the inventories in particular departments or plants. It is preferable for the representation to specify the particular location of the inventory by plant or warehouse.

The officials and employees who sign the representation are usually asked to state that the inventory was taken under their direction. In the case of junior executives, this would mean under their direct supervision. In the case of executive officials it would mean under their general instructions.

The items listed for attention and consideration under the various headings shown in the skeleton form for inventory representation are all reported to have been used by some of the fifty-two firms who have cooperated with the

subcommittee in making this inquiry. There are some items common to the representations of practically all firms reporting while others are included in the representations of a much smaller number of firms, depending, presumably, in many cases on the nature of the practice or the particular trades or industries in which a majority of a firm's clients may operate. The list of items to be considered under each heading may therefore be regarded as a maximum rather than a minimum and it is quite likely that there will be few cases in which every item will be applicable.

A. Quantities and Amounts

The items falling under this heading are:

1. A classification of the inventory as between, say, raw materials, goods in process, finished goods, supplies, etc.;

2. A statement that the inventories covered by the representation were taken under the direction of those signing the representation;

3. A statement that the inventories were taken in accordance **[page 51]** with inventory instructions, copies of which had been delivered to the auditors;

4. A statement that the quantities were correct and were determined by actual count, weight or measurement under the supervision of an official of the company on a specific date;

5. A statement that the books have been adjusted to the physical inventory, that all adjustments between book values and physical inventories have been made, that any adjustments necessary because inventories were taken at a date different from the close of the fiscal year have been made and that the books have been closed on the bases of such physical inventories;

6. If a physical inventory was not taken, a statement that an adequate perpetual-inventory system is maintained and the foregoing quantities and amounts are in agreement therewith;

7. Where perpetual inventories are relied on, a statement as to the frequency and coverage of physical tests;

8. Where there are methods of inventory-taking in use which are generally considered to be physical but which are, to a certain extent, calculated or based on records (as, for instance, where the determination of the content of tanks of chemicals, fuel oil, or similar material has been made by physical or chemical tests or the calculation of a pile of coal, stone or similar material by an engineering calculation) a statement to that effect.

B. Title and Ownership

Included in the various forms of written representations submitted are statements that the inventory as shown by the books, adjusted as described above:

1. Is the unencumbered property of the company and includes no material held on consignment from others, except:

2. Has not been pledged as collateral, except:

3. Includes no items billed by the company prior to (date as of which audit is made);

4. Includes no items not paid for or for which the liability has not been taken into account;

5. Is subject to no liens or other encumbrances for duties, taxes or similar items which have not been taken into account with the specified exceptions.

C. Prices and Calculations

This caption includes statements that:

1. The inventory is priced at the lower of cost or market with a [page 52] general statement of the basis on which this cost is determined, as first-in, first-out, average, last-in, first-out, or the like (where any method representing an unusual or not generally recognized practice is used, the form sometimes requests this to be described fully);

2. The basis of pricing and method of computation is the same as used for the previous period, and unless definite instructions have been given to use different methods or principles in pricing the inventory, a statement that the inventory basis is the same as that used for the previous period; the company's own internal check and the independent audit should disclose variations from the method prescribed which were made in error, which this item is presumably not intended to cover;

3. The method described does not place a value on the inventory in excess of cost;

4. The prices used for materials are not in excess of the replacement cost at the date as of which the audit is made;

5. The replacement cost of inventory has not materially declined between the date as of which the audit is made and the date on which the representation is signed;

6. If the inventory is valued at market, where market is below cost, the market price is determined by some recognized method which is to be described.

D. Commitments

Where this item is covered by inventory representations, it is generally provided that statements should be made that:

1. No sales commitments exist below inventory prices;

2. No purchase commitments exist at prices in excess of current market as of the date of the balance sheet except:

3. No purchase or sales commitments exist in excess of normal requirements, with specified exceptions.

E. Condition

The forms submitted included statements to the effect that no slow-moving, obsolete, damaged, depreciated or deteriorated materials or merchandise are included in the inventory at prices in excess of net realizable value.

Signature

The number of signatures and the position and title of those signing the representations for the client company vary greatly in the different forms of inventory representations submitted. In [page 53] many cases, a single signature or general approval of an executive official only is asked for, while in others, separate signatures of junior executives responsible respectively for quantities, values and prices, and condition are required in addition. In general, where officials or employees sign separately for quantities, values and prices, and condition, it is contemplated that they do so as a matter of direct personal knowledge.

The signature for general approval may or may not indicate direct personal knowledge. This signature may be that of a general executive who signs merely on the basis that he has given instructions to subordinates on whom he relies and who, he assumes, are carrying out his instructions and their duties correctly. In a smaller concern the signature for general approval will probably indicate greater specific knowledge on the part of the official signing than in a larger organization.

Written Representation Covering Liabilities

Representations obtained from the client cover all known liabilities, contingent or otherwise. Liabilities which have been reduced to definite claims against the company, or those which are evidenced by existing contracts or agreements or which will eventually become due for materials or merchandise received or included in inventory, or for services rendered, or in relation to any other obligation actually existing as of the date as of which the audit is made, will be included in the books of the company; and such liabilities are not considered here except as they are covered by the general statement in the representation that all known liabilities are provided for. The representation forms also cover liabilities of a prospective or contingent nature and these are covered in some detail.

A statement is frequently required that no assets other than those of which the auditor has been informed are pledged as security for any obligation of the company and if any such pledge is made, forms submitted include provision for a description of the asset and a statement of its book value.

Where commitments are included in this representation much the same language is used as in inventory representation.

The representations also include a statement that no contingent liabilities, except those reported, exist. Some forms include, as a reminder but without necessarily limiting contingent liabilities as to those specified, a list of the more usual types of contingent liabilities encountered. Those listed include contingent liabilities relating to: [page 54]

Customers' or other notes discounted, sold, or otherwise transferred
Drafts negotiated
Federal and state income, profits, and other taxes
Accommodation endorsements
Guarantees
Leases (except as reflected on the books)

Bonds or other obligations of other companies
Contracts or purchase agreements above current market
Profit-sharing arrangements
Pending lawsuits
Repurchase agreements
Any other agreements
Fair labor standards act (federal wage and hour law)
Accounts, notes, or other evidences of debt assigned to others with a guaranty of collection or under a repurchase agreement
Open balances on letters of credit
Additional taxes for prior years of which there is present knowledge based upon formal or informal advice
Any other pending or prospective claims, whether or not in litigation, such as claims for injuries, damages, defective goods, other than minor items arising in the ordinary course of business, for patent infringements, and deficiency judgments on real-estate bonds covering mortgaged property sold

A comparatively small number of firms include a representation that no obligations not recorded on the books of the company exist for extension of plant and equipment or in connection with any other prospective activity of the company which are significant in amount or, if such obligations exist, a description of them.

Occasionally legal counsel are requested to state whether they have any knowledge of any transfers of property made during the period under examination.

Certain features of the liability representation are clearly within the scope of the knowledge of company officials, while on others the opinion of legal counsel may be required.

There is considerable diversity in the manner in which the forms call for these representations to be signed but whether they are signed by a company official, legal counsel, or both, the evident purpose is to place the responsibility on some person who may be **[page 55]** expected to have actual knowledge of the conditions or transactions which the representations cover.

Comprehensive Written Representations Covering the Balance Sheet in General

A comparatively small number of firms, which handle a substantial proportion of audit work done by the profession, require comprehensive written representations signed by the treasurer, controller or other executives.

The evidence available indicates that this practice is in use only to a comparatively limited extent. However, the following summary is considered to be of sufficient interest to be presented for the information of members. In each case, inventories and liabilities are covered in these comprehensive representations, but as these matters have already been dealt with separately, they are disregarded here. The following are covered in the practice of one or more of the firms referred to:

Property, Plant, and Equipment

1. All charges to fixed asset accounts represent actual additions.

2. Sales, dismantlements and abandonments have been properly accounted for.

3. The company has title to property included in plant, machinery and equipment accounts.

4. The basis on which property is carried is properly described in the statements.

5. All property, plant, and equipment are being utilized in current operations or exceptions are noted.

6. The property is maintained in an efficient working condition.

7. No obsolete machinery or equipment is included in the asset accounts.

8. All property, plant, and equipment have been paid for or liability therefor taken up on the books.

9. There are no liens or encumbrances on properties except as recorded on the books.

10. If properties are appraised the results of the appraisal in relation to the book value are fully and fairly set forth.

Reserve for Depreciation

1. In the opinion of the signer of the representation the annual provision for depreciation and depletion is adequate except as noted.

2. The total reserve for depreciation is adequate at the date of the balance sheet.

[page 56] 3. The basis for providing depreciation is consistent with that used in the previous year or exceptions are noted.

Accounts Receivable

1. The notes and accounts receivable of the corporation represent valid claims against customers and other debtors.

2. Indebtedness of officers, stockholders and persons directly or indirectly controlling or controlled by the corporation and persons under direct or common control with the corporation is correctly stated in the statements.

3. Accounts receivable for material or merchandise shipped on approval or on consignment are so described in the accounts receivable records.

4. Accounts receivable hypothecated or assigned are so described in the records.

5. The accounts receivable as summarized do not include any charges for material or merchandise shipped after the closing date.

6. The accounts receivable as summarized above are not subject to deductions for discounts other than cash discounts not in excess of two per cent, for allowances respecting of defective material or merchandise, transportation charges, price adjustments, or for any other deductions of similar nature except as provided for by the corporation in its reserve accounts.

7. All notes and accounts receivable as at the closing date known to be uncollectible have been charged off as at that date.

8. In the judgment of the signer of the representation, the amount of $.......... provided as a reserve for doubtful notes and accounts is adequate to provide for any losses that may be sustained in collecting the notes and accounts of customers and other debtors as at the closing date.

Minute Books

A letter from the secretary of the company stating that the minutes furnished to the auditors are true, full, and correct.

Special Provisions in Representations

One firm requires a statement that reserves are adequate for the purposes for which they are set up; that no extraordinary or non-recurring items of income or expense are included in the profit-and-loss account except as noted; that the accounting principles and policies followed during the period are consistent with those followed during the previous period except as noted; and that officials of the [**page 57**] company know of no additional material facts not shown on the books of account or made known to the auditors in writing.

Another firm requires a statement in regard to income taxes; a statement that there are no matters of strictly personal or private nature adversely affecting the successful continuation of the operations of the company which were known to exist at the balance-sheet date or have arisen since; and a statement that, to the best of the knowledge and belief of the company officers, no shortages or defalcations have occurred which would affect the audit.

A third firm requires a statement that no events have occurred or matters been discovered since the balance-sheet date which might render the balance sheet as of that date, or the profit and loss or expense statements, untrue or misleading; that no special matters have occurred during the period covered by the financial statements except as noted; and that there have been no shortages or irregularities not disclosed to the auditors which would have a bearing on the statements. In addition there is a statement of the understanding of the company officers of the scope of the audit and a statement that there have been no intentional omissions by the company officers to state material facts to the auditors. [**page 58**]

V—LIST OF STATEMENTS ON AUDITING PROCEDURE

And Date They Appeared in The Journal of Accountancy

No.	*Date Issued*		*The Journal of Accountancy*
1.	Oct. 1939	Extensions of Auditing Procedure	Dec. 1939
2.*	Dec. 1939	The Auditor's Opinion on the Basis of a Restricted Examination	Dec. 1939
3.	Feb. 1940	Inventories and Receivables of Department Stores, Instalment Houses, Chain Stores, and Other Retailers	Feb. 1940
4.	March 1941	Clients' Written Representations Regarding Inventories, Liabilities, and Other Matters	Mar. 1941
5.	Feb. 1941	The Revised SEC Rule on "Accountants Certificates"	***
6.	March 1941	The Revised SEC Rule on "Accountants Certificates" (continued)	Apr. 1941
7.**	March 1941	Contingent Liability under Policies with Mutual Insurance Companies	Apr. 1941
8.	Sept. 1941	Interim Financial Statements and the Auditor's Report Thereon	Dec. 1941
9.**	Dec. 1941	Accountant's Reports on Examinations of Securities and Similar Investments under the Investment Company Act	Feb. 1942
10.**	June 1942	Auditing under Wartime Conditions	Aug. 1942
11.*	Sept. 1942	The Auditor's Opinion on the Basis of a Restricted Examination (No. 2)	Nov. 1942
12.	Oct. 1942	Amendment to Extensions of Auditing Procedure	Nov. 1942
13.*	Dec. 1942	The Auditor's Opinion on the Basis of a Restricted Examination (No. 3) — Face-amount Certificate Companies	***
14.	Dec. 1942	Confirmation of Public Utility Accounts Receivable	Jan. 1943
15.**	Dec. 1942	Disclosure of the Effect of Wartime Uncertainties on Financial Statements	Feb. 1943
16.	Dec. 1942	Case Studies on Inventories	***
17.**	Dec. 1942	Physical Inventories in Wartime	Feb. 1943
18.	Jan. 1943	Confirmation of Receivables from the Government	Feb. 1943
19.	Nov. 1943	Confirmation of Receivables (Positive and Negative Methods)	Jan. 1944

* These Statements have been omitted from this codification because they are no longer considered to be of current interest.

** These statements have been omitted from this codification because they apply to special situations.

*** Not printed in The Journal of Accountancy.

20.**	Dec.	1943	Termination of Fixed Price Supply Contracts	Feb. 1944
21.**	July	1944	Wartime Government Regulations	Aug. 1944
22.	May	1945	References to the Independent Accountant in Securities Registrations	June 1945
23.	Dec.	1949	Clarification of Accountant's Report When Opinion Is Omitted (Revised)	Jan. 1948 and June 1949
24.	Oct.	1948	Revision in Short-Form Accountant's Report or Certificate	Nov. 1948

Early Accounting Firms in New York City

(Continued from page 374)

W. Francis in Philadelphia. Anyon then called a meeting of accountants in New York which resulted in the formation of the American Association of Public Accountants, whose name was proposed by him and which he served as Secretary and as a member of the Council. He became CPA No. 31 in 1896, and in 1897 joined the National Society of CPA's and the New York State Society of CPA's. He served about one year, 1897-1898, on the New York Board of Examiners. He contributed articles to various journals and in 1925 published his "Recollections," which, because based only on his memory, is not always accurate as history but is very useful in its mention of persons and incidents. He died February 7, 1929.

While the story of this early firm might be considered as complete at this point, sketches of three other early partners are given because they have not appeared elsewhere.

Edward Henry Sewell was a native of England, place and date not learned. He was trained as an actuary and perhaps was employed in that capacity prior to 1887, when he came to New York to take over the insurance work previously handled by Barrow and Morton. He was made a partner in 1887, at the same time as Anyon. He was a Fellow of AAPA in 1887 and its Vice President in 1889. He returned to England in 1891.

Samuel Hardman Lever was born in Liverpool, England, on April 18, 1869. He came to New York in 1890, was employed by Barrow, Wade, Guthrie & Co., became CPA No. 40 in 1896, and was made a partner in 1898. *The Accountant* of July 16, 1904, stated that he, James T. Anyon, and A. Pyott Spence had formed the firm of Lever, Anyon & Spence with an office at 18 St. Swithin's Lane, London, which had been the location of C. H. Wade & Co. However, he remained in New York until the outbreak of World War I, when the British Government requested his services and he returned to England. For this service he was made a baronet and thereafter was known as Sir Hardman Lever. He retired from the firm in 1922 and died in 1947.

Alexander Pyott Spence was born in Dundee, Scotland, in 1872. He was trained in the office of David Myles, C.A., and became a Scottish C.A. He came to New York in 1899, was employed by Barrow, Wade, Guthrie & Co., and was made a partner in 1904. In 1903 he became Illinois CPA No. 34, joined the Illinois Society of CPA's in 1905, and came into the AAPA through that society. After the death of Mr. Anyon in 1929 he was the senior partner in Barrow, Wade, Guthrie & Co., but ill health caused him to retire. He died April 27, 1931.

Professional Comment

We note with pardonable pride the following editorial comment of our distinguished contemporary, the *Journal of Accountancy,* which appeared on page 30 of its May, 1956, issue. For the sake of completing the record, we also note that the bill in question was signed by Governor Harriman and became Chapter 545 of the New York Laws of 1956.

Another Look at the Interstate Practice Question

Certified public accountants have always sought freedom to practice across state lines—recognizing that accounting is national, even international, in scope and in principle. Since financial statements cross political boundaries freely, it seems only logical that the men who audit them should have the same right.

The American Institute of Accountants has long sought to eliminate barriers to interstate practice. Its governing body, the Council, officially declared in 1930 that the profession's ideal should be nation-wide acceptance of CPAs as qualified professional men. Limiting their practice to their own states would ultimately handicap all accredited practitioners because the profession's ability to serve business efficiently would be impaired. This philosophy has been translated into specific proposals on interstate practice and was recast into a set of principles in 1953 by the Institute's committee on interstate practice. (JofA, Feb. 54, pp. 142-6.)

Now, unexpectedly, support for these views has come from a nonaccounting organization.

The Council of State Governments —a joint agency created and supported by the states—worked with commissions on interstate cooperation to establish the Special Committee on Professional and Occupational Licensing. This committee is composed of legislators and licensing officials from New Jersey, New York and Pennsylvania. After studying the license laws of the three states, the committee recommended deletion from the accountancy statutes of the requirement that an applicant for a reciprocal certificate live or have an office in the state.

Last fall the tri-state committee conferred with representatives of the accounting profession and found that there was already agreement in principle on interstate practice. It opposes reciprocity of the horse-trading variety. It believes, as does the Institute, that recognition of an applicant's certificate should depend on his own qualifications—not on the policy of the state licensing body.

Out of this meeting grew a resolution of the board of directors of the New York State Society of CPAs. It recommended that "existing language which places residence or similar limitations on cooperative indorsement of the certificate of a certified public accountant from another state should be eliminated from laws and regulations." A bill which would amend the New York law to accord with this philosophy has passed both houses of the legislature and is now awaiting the governor's signature.

Future actions of the Council of State Governments in the field of interstate occupational licensing may be of even greater significance for accountants. At its eastern regional conference the Council's research director announced that if the tri-state experiment proved successful, a similar program would be attempted on a ten-state regional basis.

The interstate practice question is admittedly not a simple one. It is complicated by varied standards of admission to the profession, and occasionally by peculiar local conditions. But the uniform CPA examinations should be a great advantage in any effort to improve the situation. The enterprising and cooperative spirit of the New York society could well be a nationwide model.

The English View on Unrestricted Reciprocal Rights to Practice

That the philosophy implicit in the new New York law is more widely espoused than may be imagined is also evident from the following excerpts from the recently issued annual report of the Institute of Chartered Accountants in England and Wales:

Practice Rights Overseas

69. Legislation and other developments affecting the practice of accountancy and auditing in many countries overseas have been watched closely and continuously throughout the year. When necessary, representations have been made through the appropriate channels. Information and advice have readily been given in response to requests from overseas countries. The Council cannot emphasise too often its belief that the ideal arrangement is reciprocity in all parts of the world of the right to practise under the professional designation which the individual accountant has obtained by suitable training, experience and examination, without restrictions on the right to enter into partnership or agency arrangements with properly qualified accountants whatever may be their country of residence.

70. The Council believes that all forms of artificial barriers (by reference to nationality, residence, partnership association, firm names, or otherwise) are detrimental to the future development of the profession and to the interests of the countries imposing such barriers. In the past, over a long period of years, United Kingdom chartered accountants have taken a major part in the creation and development of an organised profession in many overseas countries; it is the Council's earnest hope that they will be enabled to continue to make a material contribution in this way.

New York State Tax Forum

Conducted by Benjamin Harrow, C.P.A.

Increase in Medical Deduction

Effective as of April 6, 1956, and applicable to returns for any taxable year beginning on or after January 1, 1956, taxpayers will be allowed an increased medical deduction. However, taxpayers under the age of 65 must exclude all medical expenses up to the amount of 3% of the first $6,000 of income plus 5% of all income in excess of $6,000. For taxpayers who have attained the age of 65 or who are blind there is no such limitation. The deduction covers medical care of the taxpayer, his spouse or a dependent. The maximum deduction is $2,500 for husband and wife or in the case of a head of a family. In the case of all other individuals, the deduction is limited to $1,250.

Application for Revision or Refund—Two-Year Limitation

Such an application must be filed within two years from the time the return was filed or the tax paid, whichever is earlier. Where a tax has been recomputed or if an assessment has been made where no return was filed, a claim for revision must be made within one year of such recomputation or assessment. A return filed or a tax paid before the last day prescribed for the filing of the return is considered as filed or paid on such last day.

This amendment to sec. 374 became effective April 2, 1956,[1] and is applicable to returns for any taxable year commencing on or after January 1, 1955.

Benjamin Harrow, C.P.A., has been a member of our Society since 1928, and a member of the American Institute of Accountants since 1922. He is a member of the New York Bar and Professor of Law at St. John's University.

Mr. Harrow is a past Vice-President of the Society. He is a past Chairman of the Committee on Publications and of the Committee on State Taxation. He is also a member of the Institute's Committee on Federal Taxation.

Mr. Harrow is engaged in practice as a certified public accountant and attorney in his own office in New York City.

Additional Exemptions for Blind and Aged

Like the federal law, an additional exemption will now be allowed for taxpayers who are blind. However, unlike the federal law, the exemption is $400, instead of $600. Furthermore, if gross income exceeds $6,000, the exemption is reduced by the amount of such excess gross income over $6,000. If husband and wife are both blind, an additional exemption for each taxpayer is allowed.

A similar exemption of $400 is allowed in the case of a taxpayer who has attained the age of 65.

Both provisions became effective April 6, 1956, and are applicable to returns for any taxable year commencing on or after January 1, 1956.

Expenses for Care of Children

Expenses for the care of one or more dependent persons paid by a woman or a widower are deductible, but subject to certain limitations. The dependent must be a son or daughter or step son or step daughter, under 12 years of age, or a dependent physically or mentally incapable of caring for himself.

[1] L. 1956, ch. 226.

The deduction may not exceed $400 for one dependent or $800 for all dependents. If a woman is married she must file a joint return with her husband. An unmarried person legally separated from his wife under a decree of divorce or separate maintenance is treated as a widower. No deduction is allowed with respect to any amount paid to an individual who is dependent upon and receiving his chief support from the taxpayer.

Another limitation on the deduction is the amount by which gross income of the taxpayer and his spouse exceeds $6,000.

This new provision became effective April 6, 1956, and is applicable to taxable years commencing on or after January 1, 1956.

Franchise Tax on Real Estate Corporations—Change of Classification

If during the preceding year more than 10% of the average gross assets, at full value, consists of stocks, bonds or other securities, a corporation is deemed not to be wholly engaged in real estate activities, and loses its classification as a real estate corporation. Suppose a real estate corporation purchased securities in 1951, and that in that year it was within the 10% rule. By 1955, the market value of the securities more than doubled, and even though the real estate owned by the corporation also increased in value, at full values the value of the securities exceeded 10% of the average gross assets. Is the corporation subject to a change in classification? The State Tax Commission says that it is. To avoid a change, the corporation should dispose of enough securities to come within the 10% rule.

In our opinion this is not an equitable rule. If at the time securities are purchased the corporation is within the statutory provisions, it should continue to be considered a real estate corporation regardless of fluctuations in the value of its assets. There is precedent in the law itself for such treatment. In the definition of a real estate corporation the law includes a corporation wholly engaged in holding title to bonds, notes or other obligations of the purchaser received upon the sale of any (such) real estate and leasehold and secured thereby. The spirit of the law would seem to be satisfied if at the time the corporation acquires securities it is within the 10% rule.

Statute of Limitations—Article 9

The State Tax Commission has five years from the time a return is filed within which to audit it and "state an account", that is make a final determination. After five years the return is final. There are some exceptions. If a corporation files a claim for revision, the return is not final until the claim has been finally determined. If the Internal Revenue Service changes the net income of a corporation, any resulting change in the franchise tax must be reported to the State Tax Commission, and apparently there is no time limitation against the State for any franchise tax due as a result of such change if no notice of the change has been given. There is no time limitation in the Tax Law against the Tax Commission if it has reason to believe that the return is wilfully false or fraudulent and, of course, there is no limitation of time if a corporation has failed to file any return.

Within the five-year period the Commission may reaudit a return. This protects the Commission against errors in its first audit. The reaudit is limited to cases where an additional tax is due and not where an excessive tax was imposed upon the first audit. Against an excessive tax, the only protection available to the corporation is to file a claim for revision within two years after the original assessment of the tax or within one year after any reassessment.

Office and Staff Management

A forum for the exchange of views and information on all aspects of the administration of an accounting practice.

Conducted by MAX BLOCK, C.P.A.

Accounting Firm Mergers

The accounting profession is witnessing a large number of mergers and absorptions in the area of large national firms as well as amongst smaller firms. This development parallels a similar situation in the business world where mergers and absorptions are a daily event.

There are a number of reasons for the mergers of accounting firms, to wit:

Growing businesses, with plants and branch offices spread over wide areas, require accounting firms that are large enough and with sufficient distribution of facilities, to serve them well. Thus, national firms are steadily absorbing local practitioners in sections of the country where they feel they must have a branch office.

Local practitioners attempt to achieve a country-wide coverage by correspondent arrangements with accounting firms in major cities.

Some firms, large and small, find that because of problems of perpetuation, they must affiliate with another accounting firm. The problems of perpetuation arise from different causes, for example:

A principal is advanced in age and does not believe it wise to pass on his practice to those in his organization.

A firm finds that it has run into difficulties that may cause a loss of its practice unless it comes under the wing of a larger accounting firm.

The threat of loss of important clients, because of lack of good contacts with underwriters and distributors of securities.

Increasing complexities of administration of a practice, the need for more intense application to tax practice, greater attention to management problems of clients, and larger demands on accountants for participation in various other fields, all call for more qualified personnel. These conditions are sometimes best met by mergers of accounting firms. Top-notch help is not easily hired because they are either partners of firms or are well pleased with their positions.

Increasing overhead costs are undoubtedly a basis for some mergers in high-cost areas. Amongst individual practitioners there is the realization that "disaster" insurance may lie in the field of mergers. Amongst smaller firms there is the recognition that a larger front has greater goodwill and promotional values. Moreover, a larger organization can more readily handle larger engagements, special engagements, and develop specialists in certain phases of accounting practice.

Some accountants find that their practices are jeopardized by the loss of clients resulting from mergers and absorptions in the business field. This unfortunate situation cannot easily be remedied. A firm so affected, or that may be so affected, could well con-

(Continued on page 399)

MAX BLOCK, C.P.A. (N.Y., Pa.) is a former chairman of the Committee on Administration of Accountants' Practice of the New York State Society of Certified Public Accountants. He is a lecturer at The City College of New York in the graduate course on Accounting Practice. Mr. Block is a member of the firm of Anchin, Block & Anchin.

Payroll Tax Notes

Conducted by SAMUEL S. RESS

New Policy Announced on Unemployment Insurance Benefits in Vacation Season

To clarify understanding of its policy in handling unemployment insurance claims filed during vacation periods, the New York State Department of Labor has issued the following statement of policy. In some instances it differs from a similar statement issued last year because of a recent Appellate Division decision in *Matter of Drescher,* Appeal Board Case number 47,603-54.

In deciding whether or not a claimant was to be considered totally unemployed where there was a question of vacation pay accruals, it was decided by the court that receipt of monies, although designated as vacation pay, the right to which has accrued under an employment agreement on the basis of prior services and does not depend on the granting of time off for vacation purposes, does not render a claimant ineligible for unemployment benefits with regard to a period during which he is not required to work, even if the monies are paid or payable in such time-off period, since they are a remuneration ("bonus") for past services and not for employment in such period. The Division of Employment policy release, dated April 27, 1956, states:

> SAMUEL S. RESS, an Associate Member of our Society since 1936, is a member of the New York and Massachusetts Bar. He has specialized in the payroll tax field since the inception of this type of legislation in 1936.
>
> Dr. Ress is a member of the Society's Committee on New York State Taxation and Chairman of the Sub-Committee on Unemployment Insurance.

Policy on Unemployment Insurance Payments During Vacation Periods

The following general principles underlie the policy of the Division of Employment, State Department of Labor, in acting on benefit claims filed by workers granted vacation or affected by plant shutdowns for vacation purposes. The policy is based on law, on decisions of the Appellate Division of the State Supreme Court, and on policy recommendations of the State Advisory Council on Employment and Unemployment Insurance which represents management, labor and the general public.

Under any circumstance, to be eligible for benefits, a claimant must be ready, willing and able to work and making appropriate effort to find work.

1. A worker who takes a vacation (paid or unpaid) while his firm continues to operate is either still employed or is not available for work, and so is not entitled to benefits.
2. If employees through their union as bargaining agent have agreed to a plant shutdown for vacation purposes and the actual shutdown is no longer than the vacation period, no worker in the bargaining unit represented by the union is eligible for benefits, whether he belongs to the union or not; whether he receives vacation pay or not. All are considered to have withdrawn from the labor market for the vacation period.
3. If a plant closes for a vacation period ***without union consent*** and the plant closing does not exceed the vacation period, affected workers who do not receive paid vacation are unemployed and may qualify for benefits; workers who receive paid vacation ***in part*** are partly unemployed and can receive benefits for the unpaid part of the vacation period. Workers receiving full paid vacations are employed and are not eligible for benefits. These are payments which are provided for specific time off.

IN CONTRAST, certain kinds of so-called "vacation pay" provided

for in management-labor contracts, or as a matter of employer policy, are actually bonuses for past services to which the worker is entitled whether he is granted vacation time off or not; whether he is still working for the employer or not. Such payments are not considered vacation pay, and if there is a plant shutdown for vacation, affected workers are unemployed and may be entitled to benefits.

4. If there is a layoff which exceeds the vacation period for a day or more, affected workers are considered unemployed for lack of work and receipt of vacation pay will not make a claimant ineligible for benefits for any portion of the layoff period.

   Exception. If there is a tapering off in the employer's operations in the week before or a gradual resumption in the week after the vacation period which is *due solely to the vacation shutdown,* (e.g., banking of furnaces, sequence of operations etc.), this is not considered a shutdown for lack of work. If a worker does work on one or more days in each of such weeks and receives the work which the employer has available, he is ineligible for benefits for those days during the vacation period for which he receives vacation pay.

Close attention should be given to the foregoing statement, to assure adequate and uniform handling of such claims.

What Suggestions Can Be Made To Clients

In view of the policy of the Division, it is mandatory for all employers to check vacation clauses in their employment agreements or their vacation policies. Employers should obtain expert advice to ascertain whether or not their plans provide for a vested vacation payment. Check union agreements for required consents. Where vacation pay is not considered a bonus for past services or a vested right, set out in the remarks column the relevant portions of the employment agreement or vacation policy, and have the availability of the claimant for other employment checked.

LO 11 or LO 12 Wage and Employment Information Reports During Vacation

If in a plant shutdown no one is available to complete forms LO-11 or 12, employers should notify the local office of the Division of Employment of the scheduled shut-down at least 10 days prior to it. This notification will prevent incurring a $10 penalty per employee should the forms LO-11 or 12 not be filed within 7 days from the date of mailing. The Division of Employment on receiving such prior to shut-down notice will inform the employer or his accountant as to the particular action necessary to avoid incurring these penalties.

Paid Vacations on a Staggered Basis

Payments made for the entire vacation period taken by claimant on a staggered basis during continued operations of the employer's business, either by his own choice or by mutual agreement with his employer, render him ineligible for benefits for the entire vacation period.

Vacation "Bonus" Payments for Past Services

1. If the employment agreement provides only for "vacation money" but makes no reference to a vacation period, it can be concluded that the so-called vacation pay is, in effect a "*bonus*".

2. Vacation monies paid upon or after separation from employment are a bonus for past services.

3. If the layoff is in excess of the scheduled paid vacation, vacation payments are in effect a "bonus", so that claimants are eligible for benefits throughout the layoff if otherwise eligible.

4. If, under the employment agreement, a worker may work during the vacation period and receive his "vacation pay" in addition to wages for the time worked, the vacation pay is a "bonus".

5. If, under the employment agreement, the vacation pay is treated as wages earned each month of the year preceding the vacation eligibility date and is accumulated as accrued wages, it is a "bonus" for past services.

6. "Vacation pay" disbursed from a fund financed from contributions by employers is a bonus for prior service.

7. Vacation monies are a "bonus" for past services if the employment agreement provides for their payment to workers who were on the employer's payroll on a given date, and if such monies are payable although the worker has been separated from the payroll before the vacation layoff period. This applies even though the employment agreement also provides specifically for vacation time.

Wage-Hour Administrator Revises Handicapped Worker Regulations

Amended regulations on the employment of handicapped workers and handicapped trainees under the Fair Labor Standards Act at special minimum rates were recently announced by Newell Brown, Administrator of the U. S. Department of Labor's Wage and Hour and Public Contracts Divisions.

One major effect will be to speed up the placement of handicapped persons who are being trained on the job under State rehabilitation programs. For the first time, State rehabilitation agencies are authorized to issue temporary special minimum wage certificates for such trainees for a period not to exceed 90 days. A copy of each temporary certificate, however, must be forwarded to the Divisions' nearest regional office. The regional director may then, if appropriate, amend or terminate the temporary certificate or issue a regular certificate extending beyond the 90-day period.

The amendment grants the State rehabilitation agencies the same authority to issue temporary certificates for trainees under their programs that the Veterans Administration now has for handicapped veterans, under present regulations.

Revised Wage-Hour Agricultural Exemptions Bulletin Issued

Designated as Part 780, Subpart A, this bulletin sets forth the Department's interpretation of the scope and meaning of the word "agriculture" as used in the Act. Under section 13(a)(6), "employees in agriculture" are exempt from the minimum wage and overtime requirements. In addition, the bulletin discusses the exemption for employees of non-profit or sharecrop irrigation systems used wholly for agricultural purposes.

Administrator Newell Brown said the interpretations indicate the construction of the law which the Department believes to be correct and which will guide Secretary James P. Mitchell and himself in the performance of their duties under the Act, unless they are otherwise directed by authoritative court decisions or conclude, upon reexamination of an interpretation, that it is incorrect. Meanwhile, employers may rely upon them as a "good faith" defense, he said.

This bulletin does not interpret the scope and meaning of other exemptions contained in the Act relating to agricultural products. These exemptions are sections 7(b)(3), 7(c), 13(a)(10) and 13(b)(5).

Changes in New York State Disability Benefits Law

On July 1, 1956, two amendments to the New York State Disability Benefits Law go into effect.

1. The maximum duration period for which cash benefits are required to be paid to employees disabled as a result of non-occupational injury or sickness and not arising out of and in the course of employment has been raised from a maximum of 13 weeks to 20 weeks during any period of disability or dur-

ing a period of 52 consecutive calendar weeks.

2. The maximum weekly benefit rate for such disability has been increased from \$33.00 to \$40.00 a week.

It should be noted that claimants who during their current benefit year had received disability benefits prior to July 1, 1956, will not be entitled to the additional seven weeks of benefits nor to the increased maximum benefit rate until after a new benefit year commences for the individual claimant.

Higher Employer Disability Insurance Costs

It appears likely that these new amendments will result in additional disability benefit insurance premium costs. The amount deductible from employees continues at the same rate as heretofore, namely ½ of 1% of wages paid to the employee but not exceeding 30 cents per week per employee. The employer contributes the entire excess of cost over the contributions of his employees. In many instances because of Union agreements or provisions in employment contracts, the employer pays the entire cost of the required New York State Disability Benefits Law.

Office and Staff Management

(Continued from page 395)

sider affiliation with another accounting firm.

Mergers apparently are serving their purposes well because the process is unabated. The difficulties with respect to identity of principals in firm name, integration of organizations, client reactions, etc., are evidently not insurmountable. Perhaps our state societies could be helpful in facilitating mergers if they would provide facilities for registration of practitioners seeking affiliation, classified so as to narrow down the problem of selection. Also, the collection of a number of actual merger arrangement plans, and their availability for review, would be a great help in the working out of details.

The April 15th Income Tax Due Date—Good or Evil?

Ever since the due date of the federal personal income tax returns was extended to April 15th, there have been some expressions of discontentment. Those so minded complain that 2½ months of tax season were bad enough, and that 3½ months of it are intolerable. Moreover, latecomers, they complain, do not respect April 15 any more than March 15.

The protagonists, who are a much larger number, feel that the addition of the extra month has eliminated inhuman stress and strain from the tax season; overtime has been reduced; and interim audits ordinarily made in the early part of the year have received more satisfactory attention.

A survey made by a subcommittee of the Institute's Committee on Federal Taxation, which covered numerous subjects, including that of the extension of the due date, disclosed that of 1523 replies 1151 were opposed to restoration of the March 15 due date, 306 were for it, and 66 expressed no opinion.

If accountants will press clients for the earliest possible submission of personal income data, as if the due date were still March 15th, it should be possible, ordinarily, to wind up the tax season not much later than April 1, and with a better job done. As previously indicated in this column, the drive for income tax data must be started before the close of the year, the staff must be enlisted to exert personal pressure, and the telephone and the U. S. mail must also be utilized. Good planning and execution will surely pay off.

Book Reviews

(Continued from page 341)

This absorbing book is so full of thought-provoking material that it either can be read straight through or can be savored in portions. For while the continuity of *Great Enterprise* from start to finish evinces Herrymon Maurer's high craftsmanship, each of the sections of his book is also rather complete by itself. *Great Enterprise* surely deserves to be read by enterprising professional accountants.

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Business Law, Fifth Edition

By Louis O. Bergh and Thomas Conyngton. THE RONALD PRESS COMPANY, New York, N. Y., 1956. Pages: x + 1005; $7.00.

This practical and comprehensive law text, while admittedly prepared primarily for college students, should prove valuable to accountants, who seek an aid in preparing for the law section of the qualifying examinations for the Certified Public Accountant Certificate. It should also prove useful to accountants who seek to bring themselves up-to-date concerning, or to review, the basic principles of law, with which they have almost daily contact in the practice of their profession.

Experienced accountants readily admit a knowledge of law is essential, today, in their practice, not to "practice law", certainly; but to enable them to discharge their duties to their clients. The practicing accountant who desires to review or increase his knowledge of the basic law subjects will find this text entirely adequate for his purposes.

Not content with the customary coverage of *Contracts, Agency, Corporations, Partnerships, Negotiable Instruments, Sales* and *Personal and Real Property, Bailments,* etc., the reviser considers present day problems and makes practical suggestions for the handling of particular situations.

For example, in the corporate field, such practical and contemporary subjects as corporate donations to charities and educational institutions, close corporations, stock options, stock purchase plans and stockholders suits are discussed. In *Partnerships,* the reviser does not merely enumerate death as one of the causes of dissolution, but, in addition, suggests various methods of financing the purchase by the surviving partner or partners of the interest of the deceased partner, and the advantage and disadvantages of each method. Many other subjects are treated in the same way.

Several new subjects have been added to the Fifth Edition. Among them are *Government Regulation of Labor Relations, Unfair Market Practices, Wills, Estates and Trusts* and *Federal Regulation of Business.*

Of particular interest to accountants should be the unique chapter on *Financial Statements* which contains a discussion of the responsibility of accountants (1) to their employers in making an audit, (2) to third persons in connection with balance sheets or other financial statements certified by them, and (3) under the Securties Act of 1933 for financial statements prepared or certified by the accountant and made part of a registration statement filed with the S.E.C. The leading New York cases on the subject are analysed, namely, *Ultramares Corp.* v. *Touche et al.,* 255 N.Y. 170, 174 N.E. 441; *National Surety Co.* v. *Lybrand et al.,* 256 App. Div. 226; and *State Street Trust Co.* v. *Ernst,* 278 N.Y. 104, 15 N.E. (2d) 416.

The text material is replete with summaries of important cases, which serve as concrete examples of the legal principles and the underlying reasons for the principles discussed. At the end of each chapter, are included problems based upon interesting modern cases, involving familiar situations and activities.

Professor Bergh has successfully accomplished his purpose "to make the Fifth Edition a broad, practical and comprehensive treatment of present-day law".

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Federal Estate and Gift Taxes Explained

Including Estate Planning. By CCH Editorial Staff. COMMERCE CLEARING HOUSE, INC., Chicago, Illinois, 1956. Pages: 288 (paper covers); $3.00.

Up-to-date throughout, here is a practical book designed to serve both as a guide to what *is* or *is not* subject to federal estate and gift taxes, and as an aid to filing returns for these taxes. Provides an authoritative, easily understood explanation of the "why's," and "how's," and "what's," of these taxes under the 1954 Revenue Code, together with filled-in schedules to illustrate the practical application of the points brought out in the explanation. Moreover, there is detailed exemplification of the correct manner of reporting transfers on the return forms and helpful suggestions on estate planning.

This book should prove to be a sound guide and practical reference, comprehensive yet concise, for everyone concerned in any way with the field of estate planning, estate and gift taxes.

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